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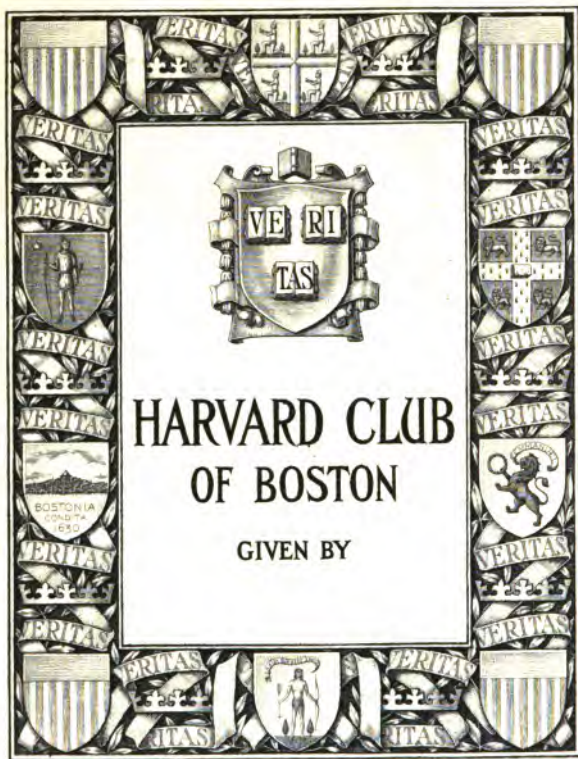


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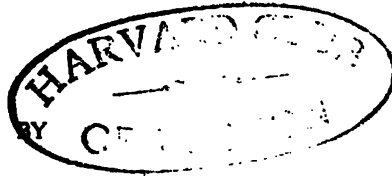
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THE INCOME TAX

UNDER

UNITED STATES AND MASSACHUSETTS LAW



FRANK A. NORTH OF SUFFOLK BAR



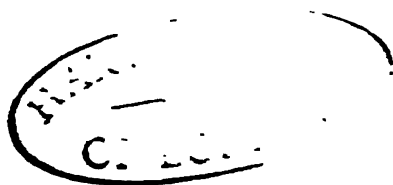
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I.

BRIEF HISTORY OF THE FEDERAL INCOME TAX LAW.

Aug. 5, 1909. The Congress enacted the Corporation Excise Tax Law which levied a tax of one per cent. on corporate net income for each calendar year, allowing an exemption of five thousand dollars.

Feb. 25, 1913. The Sixteenth Amendment to the Constitution of the United States was ratified by the States authorizing The Congress to levy taxes on the annual incomes of individuals.

Oct. 3, 1913. The Congress enacted the Federal Income Tax Law levying a tax of one per cent. on annual net income of individuals and corporations with a sur-tax applicable to individual incomes in excess of twenty thousand dollars and omitting the five thousand dollar exemption allowed corporations.

Jan. 24, 1916. The Supreme Court of the United States declared the Federal Income Tax Law of 1913 to be constitutional.

Sept. 8, 1916. The Congress enacted the present Revised Federal Income Tax Law, increasing the normal tax of individuals to two per cent. with a graduated sur-tax on incomes in excess of twenty thousand dollars and increasing the corporation tax to two per cent.

II.

HIGH SPOTS OF THE FEDERAL INCOME TAX LAW ARRANGED ALPHABETICALLY.

ACCIDENT INSURANCE.

Money received on accident policies should be returned as income in an individual Income Tax Return, less amount paid for premiums.

ADMINISTRATORS.

Administrators should make a Fiduciary Return whenever the net income payable to any beneficiary during the year is \$3000 or over. He should attach to the Return the Exemption Certificate filed with him by the beneficiary.

An administrator is a Withholding Agent and should withhold at source one per cent. for 1916 and two per cent. thereafter of the net taxable income of each beneficiary. See "Fiduciaries."

ALIMONY.

Alimony received should be returned as income, but it is treated as a personal expense to the person paying it and is not an allowable deduction in his Return.

Where alimony paid in any year exceeds \$3000 one per cent. should be deducted at source for 1916 and two per cent. thereafter.

ANNUITIES.

Annuities received by a person other than the one who made the original contract and payment under a life insurance, endowment or annuity contract, need not be returned as income.

ASSESSMENTS.

Assessments on corporation stock are not allowed as a deduction in the Return of an individual.

AUTOMOBILE.

The expense of an automobile used in business or used by a doctor in connection with his profession is a proper deduction, but such expense cannot be deducted in the case of an individual who uses his automobile exclusively for pleasure driving.

BAD DEBTS.

Individuals and corporations may include as a deduction bad debts which have been actually ascertained to be worthless and charged off on the books within the year. See "Deductions."

BENEFICIARIES.

Beneficiaries under a trust like all other individuals must make a Return if their net income equals \$3000 or over. The fact that the Fiduciary has made a Return does not excuse the beneficiary from making one also, if his total net income amounts to \$3000 or more.

BLANK FORMS.

Blank Forms for Returns of Individuals and Corporations, Fiduciary Returns, Withholding Certificates and Ownership Certificates may be obtained

from the Collector of Internal Revenue, 185 Devonshire Street, Boston. They are usually sent by mail to individuals and corporations who have made a Return in previous years but the non-receipt of Blank Forms is not an excuse for failure to file Returns, as required by the Income Tax Law.

BONDS.

The income from United States, State, County and Municipal bonds is exempt under the Income Tax Law and need not be returned. See "Income."

CLUBS.

Clubs are exempt under the Income Tax Law and need not make returns provided they file an affidavit with the Collector establishing their right to exemption. See "Corporations."

COMMISSIONS.

A commission paid to a real estate agent for collecting rent or managing property is an allowable deduction. See "Salaries."

CONSERVATORS.

See "Guardians."

CORPORATIONS.

All business corporations chartered under the laws of any State, except those certified by the Collector as exempt, are required to file a Return and to pay a tax of two per cent. on their net income for each year. There is no sur-tax.

Exempt Corporations. The following corporations are not required to make Income Tax Returns other than Withholding Return provided they file an affidavit establishing

their right to exemption; Labor, agricultural or horticultural associations, mutual savings banks, fraternal beneficiary societies, orders or associations operating under the lodge system, domestic building and loan associations, cemetery companies, religious, charitable, scientific and educational corporations, business leagues, chambers of commerce and boards of trade.

Returns. Corporations subject to the Income Tax are required to file Returns of net income on March first, or by permission of the Collector sixty days after the close of their fiscal year.

Payment. The tax is payable June fifteenth, except when based upon a fiscal year return, in which case it is payable one hundred and sixty-five days after the close of such fiscal year.

Gross Income. Mercantile corporations determine gross income by including the total merchandise sales during the year less the purchases increased or decreased by the gain or loss as shown by the inventories of merchandise at the beginning and end of the year for which the Return is made plus income from all other sources.

Manufacturing corporations determine gross income from the total sales of manufactured goods during the year covered by the Return, less purchases of raw material and cost of labor, increased or decreased by the gain or loss as shown by the inventories of finished or unfinished products, raw material, etc. at the beginning and end of the year, plus income from all other sources.

Miscellaneous corporations determine gross income from the total revenue derived from the op-

eration and management of the business and property of the corporation making the Return, plus income from all other sources.

Gross income includes dividends received from other corporations, but does not include interest received from United States, State, County and Municipal bonds, which income under the the Income Tax Law is exempt.

Deductions. Proper deductions for a corporation include the necessary expenses actually paid during the year in carrying on the business, interest paid on indebtedness to an amount not exceeding the paid-up capital stock outstanding at the close of the year plus one-half of the interest-bearing indebtedness then outstanding, losses sustained in trade and charged off on the books, taxes paid during the year and a reasonable amount for depreciation of physical property.

Corporations cannot deduct taxes assessed against local benefits, losses compensated by insurance, cost of new buildings and permanent improvements, dividends received on stock of other corporations, assessments paid on stock of other corporations, or gifts made to employees in the nature of bonus.

A corporation has no exemption.

Withholding. All corporations, both business corporations and those whose income is exempt, are Withholding Agents and are required to withhold at source one per cent. for 1916 and two per cent. thereafter on salaries or wages of officers or employees in excess of \$3000. As such Withholding Agents they should take into consideration any Exemption Claims filed by such

officers or employees and should attach the same to their Withholding Return. See "Salaries."

COUPONS.

Individuals depositing coupons for collection should file Ownership Certificates with the bank of collection in order to obtain the benefit of the \$3000 or \$4000 exemption.

Ownership Certificates are not required in the case of United States, State, County or Municipal bonds, the income from which is exempt.

Tax Free. Where the corporation has agreed to pay the tax no exemption should be claimed in the Ownership Certificate, except where the owner's net taxable income is less than three thousand dollars.

CUSTOM DUTIES.

Custom duties when paid by an individual are considered as taxes, when paid by an importer are considered as part of the cost price of goods.

DAMAGES.

Damages received for personal injuries should be returned as income.

DEDUCTIONS ALLOWED.

Deductions are to be distinguished from Exemptions, the former must be returned, while the latter need not be returned. The deductions allowed to individuals and domestic corporations are as follows

Operating Expenses. Necessary expenses actually paid during the year in carrying on a business or profession.

Interest. An individual may deduct all interest paid on indebtedness. A corporation may deduct interest paid on indebtedness to an amount not exceeding the paid-up capital stock outstanding at the close of the year plus one-half of the interest-bearing indebtedness then outstanding.

Losses. Losses actually sustained in trade, or arising from fire, storms, shipwreck, or from theft, and charged off on the books.

Stock market losses are allowed to be deducted when they do not exceed the profits returned.

Losses not incurred in trade up to the amount of gains from similar sources.

Depreciation. Depreciation of physical property may be deducted taking into consideration original cost, life of the property and any amounts charged off in previous years. Full data should be given.

Taxes. Taxes imposed by the authority of the United States, or of any State or Municipality, are a proper deduction.

Custom duties if paid by an individual are treated as taxes, if paid by a corporation or in connection with a business, are treated as part of the cost price of goods.

Income Taxes paid in any year are deductible in the following year.

Dividends. An individual may deduct dividends for purposes of the normal tax only.

At Source. In computing his liability to the 2% tax for 1916 an individual may deduct 1% of income upon which the tax has been with-

held or paid at source. Income of corporations is not required in any case to be withheld at source.

Exemptions. See "Exemptions."

DEDUCTIONS NOT ALLOWED.

The deductions which are not allowed to individuals and business corporations are the following:

Expenses. Personal, living and family expenses.

Taxes. Taxes assessed against local benefits.

Improvements. Cost of new buildings and permanent improvements.

Losses. Losses compensated by insurance. Losses in stock or other transaction in excess of the profits returned.

Rent. Rental value of real estate occupied by the owner.

Insurance. Premiums paid on life insurance.

Dividends. A corporation cannot deduct dividends received from other corporations.

Exemptions. See "Exemptions."

Assessments. Assessments on corporation stock are not a deduction.

DEPRECIATION.

Depreciation relates only to physical property employed in a business, and not to a decrease in value of stocks or other securities.

Where depreciation is claimed the return must state the original cost of the property, its probable life, and the amount, if any, charged off in previous years.

Depreciation must be actually charged off on the books.

Depreciation on an individual's own house or on that of his wife where the house is occupied by the owner is not an allowable deduction, although where the house is rented to a third party depreciation is allowed. See "Deductions."

DIRECTORS' FEES.

Directors' fees should be returned as income.

DISSOLVED CORPORATIONS.

Corporations which are dissolved during the year are required to make a Return covering the period between January first and the date of dissolution.

DIVIDENDS.

Dividends which should be included in the Return of an individual or corporation cover any distribution by a corporation of its earnings or profits which have accrued since March 1, 1913. They are returnable as income in the year received.

Individuals. Dividends received by an individual should be included in the Return as income, but for purposes of the normal tax are also included in the Return as a deduction.

Corporations. Dividends received by a corporation must be included as income and no deduction is allowed.

Stock Dividends. Stock dividends, so-called, are considered income when based on accumulated earnings. Where they represent a distribution of capital assets they need not be returned as income.

EXAMINATION OF BOOKS.

The Collector is authorized to examine the books and papers of an individual or corporation in order to ascertain whether or not a Return is required and whether or not a Return filed complies with the Income Tax Law.

EXEMPTIONS.

Exemptions are to be distinguished from Deductions. The former need not be returned, the latter must be returned.

The following exemptions are allowed to an individual for purposes of the normal tax.

Unmarried Individual. An unmarried man or woman has an exemption of \$3000.

Husband and Wife. The head of a family or a married person living with husband or wife has an exemption of \$4000, but no more than a total of \$4000 is allowed to a husband and wife living together. A husband and wife living permanently apart are each entitled to an exemption of \$3000. See "Husband and Wife."

Fiduciaries. Guardians or trustees may take advantage of the personal exemption on behalf of each ward or cestui que trust to the amount of \$3000 or \$4000 as the case may be.

Insurance. Proceeds of life insurance policies paid to another person than the insured are not taxable. The same is true of dividends or return premiums under life insurance, endowment or annuity contracts, except dividends from paid-up policies.

Gifts. Property acquired by gift, bequest, devise or descent is exempt, the income from such property, however, is taxable.

Salaries. Salaries of the present President, of Federal Judges in office September 8, 1916, and of all judges, officers and employees of a State or any political sub-division thereof are exempt.

Interest. Interest on United States, State, County and Municipal bonds is not returnable or taxable.

How Claimed. The individual claiming the specific exemption of \$3000 or \$4000 should file a notice of such claim with Withholding Agents whenever fixed income is payable, or in any event not later than January 27th following the tax year.

Deductions. See "Deductions."

EXECUTORS.

Executors should make a Fiduciary Return whenever the net income payable to any beneficiary during the year is \$3000 or over. He should attach to the Return the Exemption Certificate filed with him by the beneficiary.

An executor is a Withholding Agent and should withhold at source one per cent. for 1916 and two

per cent. thereafter of the net taxable income of each beneficiary. See "Fiduciaries."

FIDUCIARIES.

Fiduciaries include administrators, executors, guardians, conservators, trustees and other persons acting in a fiduciary capacity. They are required to file a Fiduciary Return in all cases where the net amount of income payable to any beneficiary during the year is \$3000 or more. Accumulated income or income held for future distribution must be returned annually as though actually paid. Fiduciaries should attach to the Return the Exemption Certificate, if any, filed with them by the beneficiary and should see to it that such Certificate is filed with them on time, that is when fixed income is payable and in no event later than January 27th following the tax year.

Withholding Agent. Fiduciaries are Withholding Agents within the meaning of the Income Tax Law.

Compensation. Compensation received by Fiduciaries although covering services rendered over a period of years should be returned as income in the individual return of the Fiduciary for the year in which it is received.

FISCAL YEAR.

A corporation desiring to make a Return based on its own fiscal year may do so with the consent of the Collector. Such a Return should be filed within sixty days of the close of the fiscal year.

GIFTS.

Gifts and gratuities need not be returned as income, although the income from gifts and gratuities should be so returned. See "Salaries."

GROSS INCOME.

For the method of determining gross income in the case of corporations see "Corporations."

GUARDIANS.

A guardian acting for several wards should make a Fiduciary Return whenever the net income payable to any ward during the year is \$3000 or over. He should attach to the Return the Exemption Certificate if any filed with him by the ward.

Guardians are Withholding Agents. See "Executors" and "Fiduciaries."

The guardian should make a personal return for each ward having a net income of \$3000 or more.

HUSBAND AND WIFE.

A husband and wife living together are entitled to a total exemption of \$4000.

A husband or wife living permanently apart are each entitled to an exemption of \$3000.

The head of a family is entitled to an exemption of \$4000.

Return. A husband and wife may make separate or joint returns. The husband must make a return provided his net income is \$3000 or where the joint income of husband and wife living together equals \$4000.

The husband's Return should include the income of the wife.

If either husband or wife is liable to a sur-tax the Returns must be separate.

Taxes, etc. A husband in a joint Return may deduct mortgage interest, taxes or expense of maintaining property owned by the wife.

INCOME TAX.

The Income Tax of individuals and corporations is based on the calendar year, except that a corporation by permission of the Collector may make a return based on its own fiscal year.

Amount of Tax. Individuals pay a normal tax of two per cent. Where the net income exceeds \$20,000 a graduated sur-tax is assessed.

Corporations pay two per cent. on their entire net earnings, but are not liable to the sur-tax.

Withholding Agents. Where the tax due from an individual is withheld at source by a Fiduciary or other Withholding Agent, the amount of the tax withheld is one per cent. of the net taxable income for 1916 and two per cent. thereafter.

When Payable. Income Taxes of individuals and of corporations which make their return as of the calendar year are payable on June fifteenth.

Income Taxes of corporations adopting the fiscal year basis are payable one hundred and sixty-five days after the close of such fiscal year,

Where Payable. Income Taxes are paid to the Collector for the district where the tax-payer resides or where the corporation has its usual place of business.

Taxes must be paid in legal tender or by certified check or money order. Personal checks will not be accepted.

Tax Bills. Tax Bills will be sent to the tax-payer on or before June first.

INCOME TAXABLE.

Taxable income received by an individual or business corporation is as follows: See also "Income Non-Taxable," "Deductions" and "Exemptions."

Salary. Salaries, wages or compensation for personal services received during the year should be returned as income.

Business Income. Income received from a business, profession, trade or from sales or dealings in property should be included in the Return of individuals and corporations.

Interest. Interest on mortgages, notes, bonds or deposits in banks received by an individual should be returned as income. Interest received by a corporation on mortgages, bonds, notes or other indebtedness should also be returned as income.

Gifts. Income from property acquired by gift, devise or descent is taxable and should be returned as income. The principal, however, is exempt.

Dividends. Dividends received by an individual should be returned as income, but for purposes of the normal tax may also be deducted.

Dividends received by a corporation are income.

INCOME NON-TAXABLE.

The following income received by an individual or corporation is non-taxable, viz.: proceeds of life insurance policies received by persons other than the insured; return premiums or dividends on life insurance, endowment, or annuity contracts; interest on United States, State and Municipal bonds; salaries of the present President, Federal Judges in office September 8, 1916, and of State officers and employees.

INDIVIDUALS.

Every citizen or resident of the United States having a net income of \$3000 or more from all sources including dividends and income tax paid at the source is required to make an Income Tax Return and pay the normal tax of two per cent., or such part thereof as may be due. A graduated surtax is also imposed on net incomes exceeding \$20,000.

Returns. Returns must be filed March first and the tax paid June fifteenth.

Income. Income of an individual includes business income, professional income, salary, wages, rents, interest on bonds, except tax exempt bonds, other interest, dividends, income from Fiduciaries, profits on stock or other transactions and income from any other source not expressly exempt.

Deductions. An individual may deduct from gross income business or professional expenses, interest paid or indebtedness, dividends to the amount of a normal tax, income withheld at source, taxes including income taxes, losses actually sustained in trade and charged off on the books, stock market losses not exceeding profits returned and a reasonable amount for depreciation of physical property.

An individual cannot deduct personal, living and family expenses, taxes assessed against local benefits, cost of new buildings and permanent improvements, losses compensated by insurance, premiums paid on life insurance, rental value of real estate occupied by the owner or assessments paid on corporation stock. See "Deductions."

Exemptions. An individual is entitled to the \$3000 or \$4000 exemption given to a husband or wife, to an exemption on account of income from United States, State, County and Municipal bonds and to certain other exemptions. See "Exemptions."

INFORMATION REQUIRED FOR CORPORATION RETURNS.

The following information is required in connection with the preparation of corporation returns covering the calendar year:

Name and address of corporation.

Nature of the business.

Paid up capital stock at close of year.

Interest bearing indebtedness at close of the year.

Sales.

Inventory at close of year.

Purchases.
Inventory at beginning of year.
Dividends received.
Other income received.
Expenses paid during the year for:
 Labor, wages and commissions.
 Fuel, light and power.
 Rent paid.
 Repairs.
 Salaries of Officers.
 Other expenses except interest and taxes.
Losses during the year.
Taxes paid.
Interest paid.
Depreciation.
Names of employees paid \$3000 or more.

INFORMATION REQUIRED FOR INDIVIDUAL RETURNS.

The following information is required in connection with the preparation of returns of individuals covering the calendar year:
Tax payer's name and address.
Principal business.
Wife's name.
Names of dependents.
Income received from
 Salary or wages.
 Professions.
 Business.
 Rents.
 Interest and coupons.
 Dividends.
 Fiduciaries.
 Partnerships.

Other Income Received.
Expenses paid for
Operating Expenses.
Interest.
Depreciation.
Uninsured losses.
Bad Debts.
Taxes.

INSURANCE.

Dividends on life insurance policies which have not matured need not be returned as income, but dividends on paid-up policies should be so returned.

Fire insurance premiums on a house occupied by the owner are treated as living expenses and cannot be deducted. Fire insurance premiums on property which is rented may be deducted as business expenses.

Proceeds of life insurance policies paid to others than the insured and return premiums or dividends on life insurance, endowment or annuity contracts are an exemption.

Money received from accident insurance is regarded as income.

Insurance Companies. The Income Tax Law as applied to insurance companies is not covered by this pamphlet.

INTEREST.

Interest is returnable as income in the year received.

Bank Deposits. Interest received on deposits or certificates of deposit in national banks or trust companies and interest on savings banks deposits should be returned as income.

Mortgage. Mortgage interest should be returned as income. Mortgage interest paid is a deduction.

Bonds. Interest on bonds of business corporations should be returned as income. Interest on United States, State, County and Municipal bonds is exempt.

Corporations. The amount of interest which a corporation may deduct is limited to interest paid on its indebtedness to an amount not exceeding the paid-up capital stock outstanding at the close of the year plus one-half of the interest-bearing indebtedness then outstanding.

INVENTORY.

Inventory should include finished and unfinished products, raw material and supplies.

JUDGES.

Salaries of Federal Judges in office September 8, 1916, and of Judges of State and City Courts are exempt and need not be returned.

LANDLORD AND TENANT.

An individual owning and renting real estate is engaged in "trade," so as to be entitled to deduct expenses and depreciation relating to such items.

Landlord. A landlord is entitled to a deduction for interest, taxes, repairs, janitor and elevator service, fuel, light, water, insurance and other maintenance charges, also depreciation, but not losses on the sale of such property in excess of similar gains.

Tenant. A tenant who pays rent, taxes and insurance premiums to or for an individual landlord in excess of \$3000 is a Withholding Agent and must withhold at source one per cent. for 1916 and two per cent. thereafter on the total rent, taxes and insurance premiums. He should attach to his Withholding Return the Exemption Certificate, if any, filed with him by the landlord.

A tenant who pays rent to a corporation is not a Withholding Agent.

Where the rental basis is rent and taxes and insurance premiums the entire amount should be returned as rent.

LATE RETURNS.

In case of sickness or absence the Collector may authorize a late return, granting an extension of not exceeding thirty days from March first.

LEGACIES.

Legacies are treated as gifts and need not be returned as income. The income from legacies, however, is treated as income and should be so returned.

LIMITED PARTNERSHIPS.

Limited partnerships are required to make a Return similar to that required of corporations.

LIVING EXPENSES.

Living expenses cannot be deducted in an Individual Return.

LOSSES.

Losses which are a proper deduction are limited to those incurred in trade including bad accounts

actually ascertained to be worthless and charged off on the books during the year and to losses in stock transactions or business dealings outside of an individual's own business which do not exceed the profits returned with relation to the same class of transactions. Paper losses need not be considered.

MORTGAGE INTEREST.

Mortgage interest received is income. Mortgage interest paid is an allowable deduction.

Mortgage interest paid on property owned by the wife may be deducted in the joint Return of husband and wife.

NEW CORPORATIONS.

Corporations organized during the year must make a Return for the period between the date of incorporation and the end of the calendar year.

NORMAL TAX.

The normal tax of two per cent. is assessed upon the entire net income of an individual. The sur-tax applies to net incomes in excess of \$20,000.

NON-RESIDENTS.

A citizen of the United States residing abroad or a non-resident alien holding property in the United States from which he receives a net income of \$3000 or more must make an Individual Return.

A non-resident citizen or a non-resident alien is entitled to the same exemptions and deductions as a resident citizen.

The law as to non-resident aliens is not covered by this pamphlet.

OWNERSHIP CERTIFICATE.

When coupons are deposited for collection an Ownership Certificate must be filed. Where the corporation has not agreed to pay the tax or where the net taxable income does not exceed \$3000 exemption should be claimed, but not otherwise.

PARTNERSHIPS.

Partnerships are not required to make a Return in ordinary cases, although the Collector is authorized in his discretion to require such a Return.

Individual members of a partnership should include their net income from the partnership in their Individual Returns.

Limited partnerships are required to make Returns similar to those required of corporations.

PAYMENT OF TAXES.

Individual Income Taxes are payable June fifteenth. Corporation Taxes where calendar year is used are payable June fifteenth. Corporation Taxes based on fiscal year are payable one hundred and sixty-five days after the close of such fiscal year.

Taxes should be paid to the Collector for the district in which the tax payer resides or in the case of corporations in which the principal place of business is located.

Taxes must be paid in legal tender or by certified check. Personal checks will not be accepted.

PENALTIES.

The Income Tax Law provides heavy penalties for failure to file Returns and for failure to pay the tax assessed.

Compromises. The Treasury Department has authorized Collectors in cases where there has been no wilful default on the part of the tax-payer and where proper Returns are subsequently filed and the tax paid, to compromise the statutory penalties on the following basis:

Individuals and Withholding Agents may compromise by paying \$5 for each of the years 1913, 1914 and 1915.

Corporations may compromise by paying \$10 for each of the years 1913, 1914 and 1915.

There is no assurance that any compromise will be permitted for the year 1916 or thereafter.

PENSIONS.

Pensions received from the United States Government should be returned as income.

Pensions paid by a corporation to retired employees are an allowable deduction in its return, although gifts or gratuities to employees would not be so considered.

PROFITS.

Profits on stock transactions or sales of real estate or other capital assets must be returned as income. Paper profits need not be considered.

PUBLIC INSPECTION.

Income Tax Returns are not open to public inspection.

PROFESSIONS.

Lawyers, doctors, teachers and other professional men whose net income is \$3000 or more are required to file Individual Returns. See "Individuals."

Fees. Professional fees should be returned as income for the year in which they are received, and without regard to the year when earned.

Other Income. Professional men are required to return income from all sources as well as professional income, excepting only income which is exempt. See "Income" and "Exemptions."

Deductions. Professional men are allowed the same deductions as other individuals. They may include among their deductions office rent and clerk hire, expense of an automobile used in business, losses from bad accounts and depreciation on libraries and office equipment.

REAL ESTATE.

Profits in dealings in real estate should be returned as income. Losses in connection with such dealings may be deducted if they do not exceed the profits.

Rent. Rent should be returned as income. See "Landlord and Tenant."

Maintenance. Repairs, taxes, mortgage interest, insurance, fuel, light, water, janitor and elevator service and depreciation are allowable deductions.

RECEIVERS.

Receivers, trustees in bankruptcy and assignees of corporations are required to make Returns under the same rules as corporations.

Receivers, trustees in bankruptcy and assignees of individuals must make Return as Withholding Agents if they pay to any individual taxable income in excess of \$3000.

REFUND.

Where an amount withheld or to be withheld at the source exceeds the amount of the tax which an individual is required to pay, he may file a Claim of Refund with the Withholding Agent who will attach it to the Withholding Return.

This claim must be filed on or before January 27th of the year when the Return is due.

RENT.

Rent received should be returned as income for the year when received.

Where a rental is on the basis of a fixed sum and taxes and insurance premiums the total amount should be returned as rent.

The rental value of a house occupied by the owner is not a deduction.

A tenant paying rent in excess of \$3000 a year, except where the landlord is a corporation, should withhold at source one per cent. for 1916 and two per cent. thereafter. See "Landlord and Tenant."

REPAIRS.

Repairs on a house occupied by the owner cannot be deducted as an expense. Where the house is rented to a third party, repairs are a proper deduction.

RETURNS.

Income Tax Returns for each calendar year are required for the following individuals and corporations:

Individual. Every citizen or resident of the United States having a net income of \$3000 or over from all sources, except State or City salaries or Federal, State or City bond interest.

Agents may make Returns for a tax-payer in cases of sickness or absence.

Fiduciary. Every Executor, Administrator, Guardian, Conservator, or Trustee where the net income paid to any beneficiary is \$3000 or over must make a Fiduciary Return. See "Fiduciaries."

Partnership. Partnerships as such are not required to make a Return except where requested to do so by the Collector. See "Partnerships."

Corporations. Every business corporation in existence during any part of the calendar year and whether engaged in business or not must make a Corporation Return.

The following corporations are exempt, viz.: Labor, agricultural or horticultural organizations; mutual savings banks; fraternal beneficiary societies, operating under the lodge system; building and loan associations; cemetery companies; religious, charitable, scientific and educational corporations; business leagues; chambers of commerce and boards of trade. The exemption is confined to corporations which are not conducted for profit.

Exempt corporations should have the fact of their exemption established by affidavit filed with the Collector. See "Corporations."

Withholding Agent. Every individual, partnership, corporation or association, having the control, receipt and disposal of payment of fixed annual gains, profits and income of

an individual is a Withholding Agent and must make a Return as such. See "Withholding Agents."

When Filed. All Returns are required to be filed first, except in the case of corporations which have obtained the consent of the Collector to make Return as of their own fiscal year. Such Returns are required to be filed within sixty days of the close of such fiscal year.

Where Filed. Returns are to be filed with the Collector for the district in which the individual or corporation has its residence or principal place of business.

Blanks. Blank forms for Return may be obtained from the Collector. It is no excuse for failure to file a Return that blanks have not been mailed to the tax-payer. See "Blanks."

Inspection. Returns are not open to public inspection.

RIGHTS.

Rights to subscribe for stock of a corporation are not considered as income when received, but if they are sold the proceeds are to be returned as income.

ROYALTIES.

Royalties received should be returned as income.

SALARIES.

Salaries and commissions in the nature of salary are to be returned as income by the employee.

They are an expense to the employer and when in excess of \$3000 require a withholding at source of one per cent. for 1916 and two per cent. thereafter.

The employer should attach to his Withholding Return any Exemption Certificate filed with him by the employee.

Bonus. Special payments as additional compensation for services rendered, sometimes called a bonus, are included by the employer as a business expense provided they are made in pursuance of a contract, expressed or implied. If a gift, they are not an allowable deduction.

Living Quarters. The rental value of living quarters furnished to an employee as part of his compensation should be returned as income.

Fair Compensation. Salaries to be allowed as deductions cannot exceed fair and reasonable compensation for services rendered.

Judges. Salaries of Judges of Federal Courts in office September 8, 1916, and of Judges of State Courts are exempt.

SAVINGS BANKS.

Interest on deposits in Savings Banks and Savings Departments of Trust Companies should be returned as income.

SCRIP.

Scrip certificates issued by a corporation to its stockholders in lieu of dividend are held to be

equivalent to payment in cash and should be returned in the same manner as dividends.

SOURCE.

All persons or corporations having the control of payment of fixed annual income of another person (excluding corporations) exceeding \$3000 in any year are required to withhold one per cent. for 1916 and two per cent. thereafter. See "Withholding at Source."

Fiduciaries are regarded as Withholding Agents.

A Withholding Agent with whom a claim of exemption or deduction is filed at the time any fixed income is payable may pay over the whole amount then due without deduction up to the amount of exemption or deduction properly claimed.

STOCK TRANSACTIONS.

Profits arising from dealings in stock and securities should be returned as income.

Losses in the same transaction are an allowable deduction provided they do not exceed the profits returned. Paper profits and losses need not be considered.

SUR-TAX.

Where the net income of an individual after deducting the exemptions and deductions allowed exceeds \$20,000 a graduated sur-tax is imposed.

TAXES.

Taxes are divided into two classes, the Federal Income Tax and taxes paid which may be deducted from income.

Income Tax. For a discussion of the amount and date of payment of the Federal Income Tax, see "Income Tax."

Taxes as a Deduction. Only such taxes as are actually paid during the year can be entered as a deduction. Income taxes paid or deducted at source should be entered as a deduction in the Return of the following year.

Custom duties paid by an individual are considered taxes, if paid in connection with a business are considered as part of the cost price.

Inheritance taxes and taxes paid for local benefits are not deductible.

Taxes paid on real estate owned by the wife may be deducted in a joint Return of husband and wife. For further discussion of taxes paid which may be deducted from income, see "Deductions."

TRUSTEES.

Trustees should make a Fiduciary Return whenever the net income paid to any beneficiary during the year is \$3000 or over. He must also account for accumulated income held for future distribution.

He should attach to the Return the Exemption Certificate filed with him by the beneficiary. See "Fiduciaries."

VOTING TRUST.

A Voting Trust receiving dividends on stock of corporations and turning them directly over to the stockholders and conducting no other business need not make a Corporation Return.

WIFE.

If a wife's net income is less than \$3000 she is not required to make a separate Return although her income should be accounted for in her husband's Return.

If her net income equals \$3000 or over she may make a Return, although she is not required to do so if her income is accounted for under her husband's Return.

If she is liable for a sur-tax she must make a Return. See "Husband and Wife."

WITHHOLDING AT SOURCE.

All persons or corporations having the control of payment of fixed annual income of another person (excluding corporations) exceeding \$3000 are required to withhold one per cent. for 1916 and two per cent. thereafter and to account for the same on Withholding blanks. See "Fiduciaries" for withholding of undistributed and accumulated "Income."

Exemption or Deduction Claim. A Withholding Agent with whom a claim of exemption or deduction is filed at the time any fixed income is payable may pay over the whole amount then due without deduction. The claims of exemption or deduction should be attached to the Withholding Agent's Return.

III.

TEXT OF THE FEDERAL INCOME TAX LAW.

Act of September 8, 1916.

TITLE I.—INCOME TAX.

PART I.—ON INDIVIDUALS.

SEC. 1. (a) That there shall be levied, assessed, collected, and paid annually upon the entire net income received in the preceding calendar year from all sources by every individual, a citizen or resident of the United States, a tax of two per centum upon such income; and a like tax shall be levied, assessed, collected, and paid annually upon the entire net income received in the preceding calendar year from all sources within the United States by every individual, a nonresident alien, including interest on bonds, notes, or other interest-bearing obligations of residents, corporate or otherwise.

(b) In addition to the income tax imposed by subdivision (a) of this section (herein referred to as the normal tax) there shall be levied, assessed, collected, and paid upon the total net income of every individual, or, in the case of a nonresident alien, the total net income received from all sources within the United States, an additional income tax (herein referred to as the additional tax) of one per centum per annum upon the amount by which such total net

income exceeds \$20,000 and does not exceed \$40,000, two per centum per annum upon the amount by which such total net income exceeds \$40,000 and does not exceed \$60,000, three per centum per annum upon the amount by which such total net income exceeds \$60,000 and does not exceed \$80,000, four per centum per annum upon the amount by which such total net income exceeds \$80,000 and does not exceed \$100,000, five per centum per annum upon the amount by which such total net income exceeds \$100,000 and does not exceed \$150,000, six per centum per annum upon the amount by which such total net income exceeds \$150,000 and does not exceed \$200,000, seven per centum per annum upon the amount by which such total net income exceeds \$200,000 and does not exceed \$250,000, eight per centum per annum upon the amount by which such total net income exceeds \$250,000 and does not exceed \$300,000, nine per centum per annum upon the amount by which such total net income exceeds \$300,000 and does not exceed \$500,000, ten per centum per annum upon the amount by which such total net income exceeds \$500,000 and does not exceed \$1,000,000, eleven per centum per annum upon the amount by which such total net income exceeds \$1,000,000 and does not exceed \$1,500,000, twelve per centum per annum upon the amount by which such total net income exceeds \$1,500,000 and does not exceed \$2,000,000, and thirteen per centum per annum upon the amount by which such total net income exceeds \$2,000,000.

For the purpose of the additional tax there shall be included as income the income derived from dividends on the capital stock or from the net earnings of any corporation, joint-stock company or association, or insurance company, except that in the case of nonresident aliens such income derived from sources without the United States shall not be included.

All the provisions of this title relating to the normal tax on individuals, so far as they are applicable and are not inconsistent with this subdivision and section three, shall apply to the imposition, levy, assessment and collection of the additional tax imposed under this subdivision.

(c) The foregoing normal and additional tax rates shall apply to the entire net income, except as hereinafter provided, received by every taxable person in the calendar year nineteen hundred and sixteen and in each calendar year thereafter.

INCOME DEFINED.

SEC. 2. (a) That, subject only to such exemptions and deductions as are hereinafter allowed, the net income of a taxable person shall include gains, profits, and income derived from salaries, wages, or compensation for personal service of whatever kind and in whatever form paid, or from professions, vocations, businesses, trade, commerce, or sales, or dealings in property, whether real or personal, growing out of the ownership or use of or interest in real or personal property, also from interest, rent, dividends, securities, or the transaction of any business carried on for gain or profit, or gains or profits and income derived from any source whatever: *Provided*, That the term "dividends" as used in this title shall be held to mean any distribution made or ordered to be made by a corporation, joint-stock company, association, or insurance company, out of its earnings or profits accrued since March first, nineteen hundred and thirteen, and payable to its shareholders, whether in cash or in stock of the corporation, joint-stock company, association, or insurance company, which stock dividend shall be considered income, to the amount of its cash value.

(b) Income received by estates of deceased persons during the period of administration or settlement of the estate, shall be subject to the normal and addi-

tional tax and taxed to their estates, and also such income of estates or any kind of property held in trust, including such income accumulated in trust for the benefit of unborn or unascertained persons, or persons with contingent interests, and income held for future distribution under the terms of the will or trust shall be likewise taxed, the tax in each instance, except when the income is returned for the purpose of the tax by the beneficiary, to be assessed to the executor, administrator, or trustee, as the case may be: *Provided*, That where the income is to be distributed annually or regularly between existing heirs or legatees, or beneficiaries the rate of tax and method of computing the same shall be based in each case upon the amount of the individual share to be distributed.

Such trustees, executors, administrators, and other fiduciaries are hereby indemnified against the claims or demands of every beneficiary for all payments of taxes which they shall be required to make under the provisions of this title, and they shall have credit for the amount of such payments against the beneficiary or principal in any accounting which they make as such trustees or other fiduciaries.

(c) For the purpose of ascertaining the gain derived from the sale or other disposition of property, real, personal, or mixed, acquired before March first, nineteen hundred and thirteen, the fair market price or value of such property as of March first, nineteen hundred and thirteen, shall be the basis for determining the amount of such gain derived.

ADDITIONAL TAX INCLUDES UNDISTRIBUTED PROFITS.

SEC. 3. For the purpose of the additional tax, the taxable income of any individual shall include the share to which he would be entitled of the gains and profits, if divided or distributed, whether divided or distributed or not, of all corporations, joint-stock companies or associations, or insurance companies, however created or organized, formed or fraudulently

availed of for the purpose of preventing the imposition of such tax through the medium of permitting such gains and profits to accumulate instead of being divided or distributed; and the fact that any such corporation, joint-stock company or association, or insurance company, is a mere holding company, or that the gains and profits are permitted to accumulate beyond the reasonable needs of the business, shall be *prima facie* evidence of a fraudulent purpose to escape such tax; but the fact that the gains and profits are in any case permitted to accumulate and become surplus shall not be construed as evidence of a purpose to escape the said tax in such case unless the Secretary of the Treasury shall certify that in his opinion such accumulation is unreasonable for the purposes of the business. When requested by the Commissioner of Internal Revenue, or any district collector of internal revenue, such corporation, joint-stock company or association, or insurance company shall forward to him a correct statement of such gains and profits and the names and addresses of the individuals or shareholders who would be entitled to the same if divided or distributed.

INCOME EXEMPT FROM LAW.

SEC. 4. The following income shall be exempt from the provisions of this title:

The proceeds of life insurance policies paid to individual beneficiaries upon the death of the insured; the amount received by the insured, as a return of premium or premiums paid by him under life insurance, endowment, or annuity contracts, either during the term or at the maturity of the term mentioned in the contract or upon the surrender of the contract; the value of property acquired by gift, bequest, devise, or descent (but the income from such property shall be included as income); interest upon the obligations of a State or any political subdivision thereof or upon the obligations of the United States or its pos-

sessions or securities issued under the provisions of the Federal farm loan Act of July seventeenth, nineteen hundred and sixteen; the compensation of the present President of the United States during the term for which he has been elected, and the judges of the Supreme and inferior courts of the United States now in office, and the compensation of all officers and employees of a State, or any political subdivision thereof, except when such compensation is paid by the United States Government.

DEDUCTIONS ALLOWED.

SEC. 5. That in computing net income in the case of a citizen or resident of the United States—

(a) For the purpose of the tax there shall be allowed as deductions—

First. The necessary expenses actually paid in carrying on any business or trade, not including personal, living, or family expenses;

Second. All interest paid within the year on his indebtedness;

Third. Taxes paid within the year imposed by the authority of the United States, or its Territories, or possessions, or any foreign country, or under the authority of any State, county, school district, or municipality, or other taxing subdivision of any State, not including those assessed against local benefits;

Fourth. Losses actually sustained during the year, incurred in his business or trade, or arising from fires, storms, shipwreck, or other casualty, and from theft, when such losses are not compensated for by insurance or otherwise: *Provided*, That for the purpose of ascertaining the loss sustained from the sale or other disposition of property, real, personal, or mixed, acquired before March first, nineteen hundred and thirteen, the fair market price or value of such property as of March first, nineteen hundred and thirteen, shall be the basis for determining the amount of such loss sustained;

Fifth. In transactions entered into for profit but not connected with his business or trade, the losses actually sustained therein during the year to an amount not exceeding the profits arising therefrom;

Sixth. Debts due to the taxpayer actually ascertained to be worthless and charged off within the year;

Seventh. A reasonable allowance for the exhaustion, wear and tear of property arising out of its use or employment in the business or trade;

Eighth. (a) In the case of oil and gas wells a reasonable allowance for actual reduction in flow and production to be ascertained not by the flush flow, but by the settled production or regular flow; (b) in the case of mines a reasonable allowance for depletion thereof not to exceed the market value in the mine of the product thereof, which has been mined and sold during the year for which the return and computation are made, such reasonable allowance to be made in the case of both (a) and (b) under rules and regulations to be prescribed by the Secretary of the Treasury: *Provided*, That when the allowances authorized in (a) and (b) shall equal the capital originally invested, or in case of purchase made prior to March first, nineteen hundred and thirteen, the fair market value as of that date, no further allowance shall be made. No deduction shall be allowed for any amount paid out for new buildings, permanent improvements, or betterments, made to increase the value of any property or estate, and no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been made.

CREDITS ALLOWED.

(b) For the purpose of the normal tax only, the income embraced in a personal return shall be credited with the amount received as dividends upon the stock or from the net earnings of any corporation, joint-

stock company or association, trustee, or insurance company, which is taxable upon its net income as hereinafter provided;

(c) A like credit shall be allowed as to the amount of income, the normal tax upon which has been paid or withheld for payment at the source of the income under the provisions of this title.

NONRESIDENT ALIENS.

SEC. 6. That in computing net income in the case of a nonresident alien—

(a) For the purpose of the tax there shall be allowed as deductions—

First. The necessary expenses actually paid in carrying on any business or trade conducted by him within the United States, not including personal, living, or family expenses;

Second. The proportion of all interest paid within the year by such person on his indebtedness which the gross amount of his income for the year derived from sources within the United States bears to the gross amount of his income for the year derived from all sources within and without the United States, but this deduction shall be allowed only if such person includes in the return required by section eight all the information necessary for its calculation;

Third. Taxes paid within the year imposed by the authority of the United States, or its Territories, or possessions, or under the authority of any State, county, school district, or municipality, or other taxing subdivision of any State, paid within the United States, not including those assessed against local benefits;

Fourth. Losses actually sustained during the year, incurred in business or trade conducted by him within the United States, and losses of property within the United States arising from fires, storms, shipwreck,

are not compensated for by insurance or otherwise: *Provided*, That for the purpose of ascertaining the amount of such loss or losses sustained in trade, or speculative transactions not in trade, from the same or any kind of property acquired before March first, nineteen hundred and thirteen, the fair market price or value of such property as of March first, nineteen hundred and thirteen, shall be the basis for determining the amount of such loss or losses sustained;

Fifth. In transactions entered into for profit but not connected with his business or trade, the losses actually sustained therein during the year to an amount not exceeding the profits arising therefrom in the United States;

Sixth. Debts arising in the course of business or trade conducted by him within the United States due to the taxpayer actually ascertained to be worthless and charged off within the year;

Seventh. A reasonable allowance for the exhaustion, wear and tear of property within the United States arising out of its use or employment in the business or trade; (a) in the case of oil and gas wells a reasonable allowance for actual reduction in flow and production to be ascertained not by the flush flow, but by the settled production or regular flow; (b) in the case of mines a reasonable allowance for depletion thereof not to exceed the market value in the mine of the product thereof which has been mined and sold during the year for which the return and computation are made, such reasonable allowance to be made in the case of both (a) and (b) under rules and regulations to be prescribed by the Secretary of the Treasury: *Provided*, That when the allowance authorized in (a) and (b) shall equal the capital originally invested, or in case of purchase made prior to March first, nineteen hundred and thirteen, the fair market value as of that date, no further allowance shall be made. No deduction shall be allowed for any amount paid out for new buildings, permanent im-

provements, or betterments, made to increase the value of any property or estate, and no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been made.

(b) There shall also be allowed the credits specified by subdivisions (b) and (c) of section five.

PERSONAL EXEMPTION.

SEC. 7. (a) That for the purpose of the normal tax only, there shall be allowed as an exemption in the nature of a deduction from the amount of the net income of each of said persons, ascertained as provided herein, the sum of \$3,000, plus \$1,000 additional if the person making the return be a head of a family or a married man with a wife living with him, or plus the sum of \$1,000 additional if the person making the return be a married woman with a husband living with her; but in no event shall this additional exemption of \$1,000 be deducted by both a husband and a wife: *Provided*, That only one deduction of \$4,000 shall be made from the aggregate income of both husband and wife when living together: *Provided further*, That guardians or trustees shall be allowed to make this personal exemption as to income derived from the property of which such guardian or trustee has charge in favor of each ward or *cestui que* trust: *Provided further*, That in no event shall a ward or *cestui que* trust be allowed a greater personal exemption than \$3,000, or, if married, \$4,000, as provided in this paragraph, from the amount of net income received from all sources. There shall also be allowed an exemption from the amount of the net income of estates of deceased persons during the period of administration or settlement, and of trust or other estates the income of which is not distributed annually or regularly under the provisions of paragraph (b), section two, the sum of \$3,000, including such deductions as are allowed under section five.

(b) A nonresident alien individual may receive the benefit of the exemption provided for in this section only by filing or causing to be filed with the collector of internal revenue a true and accurate return of his total income, received from all sources, corporate or otherwise, in the United States, in the manner prescribed by this title; and in case of his failure to file such return the collector shall collect the tax on such income, and all property belonging to such nonresident alien individual shall be liable to distraint for the tax.

RETURNS.

SEC. 8. (a) The tax shall be computed upon the net income, as thus ascertained, of each person subject thereto, received in each preceding calendar year ending December thirty-first.

(b) On or before the first day of March, nineteen hundred and seventeen, and the first day of March in each year thereafter, a true and accurate return under oath shall be made by each person of lawful age, except as hereinafter provided, having a net income of \$3,000 or over for the taxable year to the collector of internal revenue for the district in which such person has his legal residence or principal place of business, or if there be no legal residence or place of business in the United States, then with the collector of internal revenue at Baltimore, Maryland, in such form as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall prescribe, setting forth specifically the gross amount of income from all separate sources, and from the total thereof deducting the aggregate items of allowances herein authorized: *Provided*, That the Commissioner of Internal Revenue shall have authority to grant a reasonable extension of time, in meritorious cases, for filing returns of income by persons residing or traveling abroad who are required to make and file returns of income and who are unable to file said returns on or before March first of each year: *Pro-*

vided further, That the aforesaid return may be made by an agent when by reason of illness, absence, or nonresidence the person liable for said return is unable to make and render the same, the agent assuming the responsibility of making the return and incurring penalties provided for erroneous, false, or fraudulent return.

(c) Guardians, trustees, executors, administrators, receivers, conservators, and all persons, corporations, or associations acting in any fiduciary capacity, shall make and render a return of the income of the person, trust, or estate for whom or which they act, and be subject to all the provisions of this title which apply to individuals. Such fiduciary shall make oath that he has sufficient knowledge of the affairs of such person, trust, or estate to enable him to make such return and that the same is, to the best of his knowledge and belief, true and correct, and be subject to all the provisions of this title which apply to individuals: *Provided*, That a return made by one of two or more joint fiduciaries filed in the district where such fiduciary resides, under such regulations as the Secretary of the Treasury may prescribe, shall be a sufficient compliance with the requirements of this paragraph.

(d) All persons, firms, companies, copartnerships, corporations, joint-stock companies, or associations, and insurance companies, except as hereinafter provided, in whatever capacity acting, having the control, receipt, disposal, or payment of fixed or determinable annual or periodical gains, profits, and income of another individual subject to tax, shall in behalf of such person deduct and withhold from the payment an amount equivalent to the normal tax upon the same and make and render a return, as aforesaid, but separate and distinct, of the portion of the income of each person from which the normal tax has been thus withheld, and containing also the name and address of such person or stating that the name and address of the address, as the case may be, are unknown: *Pro-*

vided, That the provision requiring the normal tax of individuals to be deducted and withheld at the source of the income shall not be construed to require the withholding of such tax according to the two per centum normal tax rate herein prescribed until on and after January first, nineteen hundred and seventeen, and the law existing at the time of the passage of this Act shall govern the amount withheld or to be withheld at the source until January first, nineteen hundred and seventeen.

That in either case mentioned in subdivisions (c) and (d) of this section no return of income not exceeding \$3,000 shall be required, except as in this title provided.

(e) Persons carrying on business in partnership shall be liable for income tax only in their individual capacity, and the share of the profits of the partnership to which any taxable partner would be entitled if the same were divided, whether divided or otherwise, shall be returned for taxation and the tax paid under the provisions of this title: *Provided*, That from the net distributive interests on which the individual members shall be liable for tax, normal and additional, there shall be excluded their proportionate shares received from interest on the obligations of a State or any political or taxing subdivision thereof, and upon the obligations of the United States and its possessions, and all taxes paid to the United States or to any possession thereof, or to any State, county, or taxing subdivision of a State, and that for the purpose of computing the normal tax there shall be allowed a credit, as provided by section five, subdivision (b), for their proportionate share of the profits derived from dividends. And such partnership, when requested by the Commissioner of Internal Revenue, or any district collector, shall render a correct return of the earnings, profits, and income of the partnership, except income exempt under section four of this act, setting forth the item of the

gross income and the deductions and credits allowed by this title, and the names and addresses of the individuals who would be entitled to the net earnings, profits, and income, if distributed.

(f) In every return shall be included the income derived from dividends on the capital stock or from the net earnings of any corporation, joint-stock company or association, or insurance company, except that in the case of nonresident aliens such income derived from sources without the United States shall not be included.

(g) An individual keeping accounts upon any basis other than that of actual receipts and disbursements, unless such other basis does not clearly reflect his income, may, subject to regulations made by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, make his return upon the basis upon which his accounts are kept, in which case the tax shall be computed upon his income as so returned.

ASSESSMENT AND ADMINISTRATION.

SEC. 9. (a) That all assessments shall be made by the Commissioner of Internal Revenue and all persons shall be notified of the amount for which they are respectively liable on or before the first day of June of each successive year, and said amounts shall be paid on or before the fifteenth day of June, except in cases of refusal or neglect to make such return and in cases of erroneous, false, or fraudulent returns, in which cases the Commissioner of Internal Revenue shall, upon the discovery thereof, at any time within three years after said return is due, or has been made, make a return upon information obtained as provided for in this title or by existing law, or require the necessary corrections to be made, and the assessment made by the Commissioner of Internal Revenue thereon shall be paid by such person or persons immediately upon notification of the amount of such assessment; and to any sum or sums due

and unpaid after the fifteenth day of June in any year, and for ten days after notice and demand thereof by the collector, there shall be added the sum of five per centum on the amount of tax unpaid, and interest at the rate of one per centum per month upon said tax from the time the same became due, except from the estates of insane, deceased, or insolvent persons.

(b) All persons, firms, co-partnerships, companies, corporations, joint-stock companies, or associations, and insurance companies, in whatever capacity acting, including lessees or mortgagors of real or personal property, trustees acting in any trust capacity, executors, administrators, receivers, conservators, employers, and all officers and employees of the United States having the control, receipt, custody, disposal, or payment of interest, rent, salaries, wages, premiums, annuities, compensation, remuneration, emoluments, or other fixed or determinable annual or periodical gains, profits, and income of another person, exceeding \$3,000 for any taxable year, other than income derived from dividends on capital stock, or from the net earnings of corporations and joint-stock companies or associations, or insurance companies, the income of which is taxable under this title, who are required to make and render a return in behalf of another, as provided herein, to the collector of his, her, or its district, are hereby authorized and required to deduct and withhold from such annual or periodical gains, profits, and income such sum as will be sufficient to pay the normal tax imposed thereon by this title, and shall pay the amount withheld to the officer of the United States Government authorized to receive the same; and they are each hereby made personally liable for such tax, and they are each hereby indemnified against every person, corporation, association, or demand whatsoever for all payments which they shall make in pursuance and by virtue of this title.

In all cases where the income tax of a person is withheld and deducted and paid or to be paid at the source, such person shall not receive the benefit of the personal exemption allowed in section seven of this title except by an application for refund of the tax unless he shall, not less than thirty days prior to the day on which the return of his income is due, file with the person who is required to withhold and pay tax for him a signed notice in writing claiming the benefit of such exemption, and thereupon no tax shall be withheld upon the amount of such exemption: *Provided*, That if any person for the purpose of obtaining any allowance or reduction by virtue of a claim for such exemption, either for himself or for any other person, knowingly makes any false statement or false or fraudulent representation, he shall be liable to a penalty of not exceeding \$300.

And where the income tax is paid or to be paid at the source, no person shall be allowed the benefit of any deduction provided for in sections five or six of this title unless he shall, not less than thirty days prior to the day on which the return of his income is due, either (1) file with the person who is required to withhold and pay tax for him a true and correct return of his gains, profits, and income from all other sources, and also the deductions asked for, and the showing thus made shall then become a part of the return to be made in his behalf by the person required to withhold and pay the tax, or (2) likewise make application for deductions to the collector of the district in which return is made or to be made for him: *Provided*, That when any amount allowable as a deduction is known at the time of receipt of fixed annual or periodical income by an individual subject to tax, he may file with the person, firm, or corporation making the payment a certificate, under penalty for false claim, and in such form as shall be prescribed by the Commissioner of Internal Revenue, stating the amount of such deduction and making a claim for an

allowance of the same against the amount of tax otherwise required to be deducted and withheld at the source of the income, and such certificate shall likewise become a part of the return to be made in his behalf.

If such person is absent from the United States, or is unable owing to serious illness to make the return and application above provided for, the return and application may be made by an agent, he making oath that he has sufficient knowledge of the affairs and property of his principal to enable him to make a full and complete return, and that the return and application made by him are full and complete.

(c) The amount of the normal tax hereinbefore imposed shall be deducted and withheld from fixed or determinable annual or periodical gains, profits, and income derived from interest upon bonds and mortgages, or deeds of trust or other similar obligations of corporations, joint-stock companies, associations, and insurance companies, whether payable annually or at shorter or longer periods, although such interest does not amount to \$3,000, subject to the provisions of this title requiring the tax to be withheld at the source and deducted from annual income and returned and paid to the Government.

(d) And likewise the amount of such tax shall be deducted and withheld from coupons, checks, or bills of exchange for or in payment of interest upon bonds of foreign countries and upon foreign mortgages or like obligations (not payable in the United States), and also from coupons, checks, or bills of exchange for or in payment of any dividends upon the stock or interest upon the obligations of foreign corporations, associations, and insurance companies engaged in business in foreign countries.

And the tax in such cases shall be withheld, deducted, and returned for and in behalf of any person subject to the tax hereinbefore imposed, although such interest or dividends do not exceed \$3,000, by (1)

any banker or person who shall sell or otherwise realize coupons, checks, or bills of exchange drawn or made in payment of any such interest or dividends (not payable in the United States), and (2) any person who shall obtain payment (not in the United States), in behalf of another of such dividends and interest by means of coupons, checks, or bills of exchange, and also (3) any dealer in such coupons who shall purchase the same for any such dividends or interest (not payable in the United States), otherwise than from a banker or another dealer in such coupons.

(e) Where the tax is withheld at the source, the benefit of the exemption and the deductions allowable under this title may be had by complying with the foregoing provisions of this section.

(f) All persons, firms, or corporations undertaking as a matter of business or for profit the collection of foreign payments of such interest or dividends by means of coupons, checks, or bills of exchange shall obtain a license from the Commissioner of Internal Revenue, and shall be subject to such regulations enabling the Government to ascertain and verify the due withholding and payment of the income tax required to be withheld and paid as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall prescribe; and any person who shall knowingly undertake to collect such payments as aforesaid without having obtained a license therefor, or without complying with such regulations, shall be deemed guilty of a misdemeanor and for each offense be fined in a sum not exceeding \$5,000, or imprisoned for a term not exceeding one year, or both, in the discretion of the court.

(g) The tax herein imposed upon gains, profits, and income not falling under the foregoing and not returned and paid by virtue of the foregoing shall be assessed by personal return under rules and regulations to be prescribed by the Commissioner of Internal

Revenue and approved by the Secretary of the Treasury. The intent and purpose of this title is that all gains, profits, and income of a taxable class, as defined by this title, shall be charged and assessed with the corresponding tax, normal and additional, prescribed by this title, and said tax shall be paid by the owner of such income, or the proper representative having the receipt, custody, control, or disposal of the same. For the purpose of this title ownership or liability shall be determined as of the year for which a return is required to be rendered.

The provisions of this title relating to the deduction and payment of the tax at the source of income shall only apply to the normal tax hereinbefore imposed upon individuals.

PART II.—ON CORPORATIONS.

SEC. 10. That there shall be levied, assessed, collected, and paid annually upon the total net income received in the preceding calendar year from all sources by every corporation, joint-stock company or association, or insurance company, organized in the United States, no matter how created or organized but not including partnerships, a tax of two per centum upon such income; and a like tax shall be levied, assessed, collected, and paid annually upon the total net income received in the preceding calendar year from all sources within the United States by every corporation, joint-stock company or association, or insurance company organized, authorized, or existing under the laws of any foreign country, including interest on bonds, notes, or other interest-bearing obligations of residents, corporate or otherwise, and including the income derived from dividends on capital stock or from net earnings of resident corporations, joint-stock companies or associations, or insurance companies whose net income is taxable under this title: *Provided*, That the term "dividends" as

used in this title shall be held to mean any distribution made or ordered to be made by a corporation, joint-stock company, association, or insurance company, out of its earnings or profits accrued since March first, nineteen hundred and thirteen, and payable to its shareholders, whether in cash or in stock of the corporation, joint-stock company, association, or insurance company, which stock dividend shall be considered income, to the amount of its cash value.

The foregoing tax rate shall apply to the total net income received by every taxable corporation, joint-stock company or association, or insurance company in the calendar year nineteen hundred and sixteen and in each year thereafter, except that if it has fixed its own fiscal year under the provisions of existing law, the foregoing rate shall apply to the proportion of the total net income returned for the fiscal year ending prior to December thirty-first, nineteen hundred and sixteen, which the period between January first, nineteen hundred and sixteen, and the end of such fiscal year bears to the whole of such fiscal year, and the rate fixed in Section II of the Act approved October third, nineteen hundred and thirteen, entitled "An Act to reduce tariff duties and to provide revenue for the Government, and for other purposes," shall apply to the remaining portion of the total net income returned for such fiscal year.

For the purpose of ascertaining the gain derived or loss sustained from the sale or other disposition by a corporation, joint-stock company or association, or insurance company, of property, real, personal, or mixed, acquired before March first, nineteen hundred and thirteen, the fair market price or value of such property as of March first, nineteen hundred and thirteen, shall be the basis for determining the amount of such gain derived or loss sustained.

CONDITIONAL AND OTHER EXEMPTIONS.

SEC. 11. (a) That there shall not be taxed under this title any income received by any—

First. Labor, agricultural, or horticultural organization;

Second. Mutual savings bank not having a capital stock represented by shares;

Third. Fraternal beneficiary society, order, or association, operating under the lodge system or for the exclusive benefit of the members of a fraternity itself operating under the lodge system, and providing for the payment of life, sick, accident, or other benefits to the members of such society, order, or association or their dependents;

Fourth. Domestic building and loan association and co-operative banks without capital stock organized and operated for mutual purposes and without profit;

Fifth. Cemetery company owned and operated exclusively for the benefit of its members;

Sixth. Corporation or association organized and operated exclusively for religious, charitable, scientific, or educational purposes, no part of the net income of which inures to the benefit of any private stockholder or individual;

Seventh. Business league, chamber of commerce, or board of trade, not organized for profit and no part of the net income of which inures to the benefit of any private stockholder or individual;

Eighth. Civic league or organization not organized for profit but operated exclusively for the promotion of social welfare;

Ninth. Club organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, no part of the net income of which inures to the benefit of any private stockholder or member;

Tenth. Farmers' or other mutual hail, cyclone, or fire insurance company, mutual ditch or irrigation company, mutual or co-operative telephone company, or like organization of a purely local character, the income of which consists solely of assessments, dues, and fees collected from members for the sole purpose of meeting its expenses;

Eleventh. Farmers', fruit growers', or like association, organized and operated as a sales agent for the purpose of marketing the products of its members and turning back to them the proceeds of sales, less the necessary selling expenses, on the basis of the quantity of produce furnished by them;

Twelfth. Corporation or association organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to an organization which itself is exempt from the tax imposed by this title; or

Thirteenth. Federal land banks and national farm-loan associations as provided in section twenty-six of the Act approved July seventeenth, nineteen hundred and sixteen, entitled "An Act to provide capital for agricultural development, to create standard forms of investment based upon farm mortgage, to equalize rates of interest upon farm loans, to furnish a market for United States bonds, to create Government depositaries and financial agents for the United States, and for other purposes."

Fourteenth. Joint stock land banks as to income derived from bonds or debentures of other joint stock land banks or any Federal land bank belonging to such joint stock land bank.

(b) There shall not be taxed under this title any income derived from any public utility or from the exercise of any essential governmental function accruing to any State, Territory, or the District of Columbia, or any political sub-division of a State or Territory, nor any income accruing to the government of the Philippine Islands or Porto Rico, or of any political subdivision of the Philippine Islands or Porto Rico: *Provided*, That whenever any State, Territory, or the District of Columbia, or any political subdivision of a State or Territory, has, prior to the passage of this title, entered in good faith into a contract with any person or corporation, the object

and purpose of which is to acquire, construct, operate, or maintain a public utility, no tax shall be levied under the provisions of this title upon the income derived from the operation of such public utility, so far as the payment thereof will impose a loss or burden upon such State, Territory, or the District of Columbia, or a political subdivision of a State or Territory; but this provision is not intended to confer upon such person or corporation any financial gain or exemption or to relieve such person or corporation from the payment of a tax as provided for in this title upon the part or portion of the said income to which such person or corporation shall be entitled under such contract.

DEDUCTIONS.

SEC. 12. (a) In the case of a corporation, joint-stock company or association, or insurance company, organized in the United States, such net income shall be ascertained by deducting from the gross amount of its income received within the year from all sources—

First. All the ordinary and necessary expenses paid within the year in the maintenance and operation of its business and properties, including rentals or other payments required to be made as a condition to the continued use or possession of property to which the corporation has not taken or is not taking title, or in which it has no equity.

Second. All losses actually sustained and charged off within the year and not compensated by insurance or otherwise, including a reasonable allowance for the exhaustion, wear and tear of property arising out of its use or employment in the business or trade; (a) in the case of oil and gas wells a reasonable allowance for actual reduction in flow and production to be ascertained not by the flush flow, but by the settled production or regular flow; (b) in the case of mines a reasonable allowance for depletion thereof not to exceed the market value in the mine of the

product thereof which has been mined and sold during the year for which the return and computation are made, such reasonable allowance to be made in the case of both (a) and (b) under rules and regulations to be prescribed by the Secretary of the Treasury: *Provided*, That when the allowance authorized in (a) and (b) shall equal the capital originally invested, or in case of purchase made prior to March first, nineteen hundred and thirteen, the fair market value as of that date, no further allowance shall be made; and (c) in the case of insurance companies, the net addition, if any, required by law to be made within the year to reserve funds and the sums other than dividends paid within the year on policy and annuity contracts: *Provided*, That no deduction shall be allowed for any amount paid out for new buildings, permanent improvements, or betterments made to increase the value of any property or estate, and no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been made: *Provided further*, That mutual fire and mutual employers' liability and mutual workmen's compensation and mutual casualty insurance companies requiring their members to make premium deposits to provide for losses and expenses shall not return as income any portion of the premium deposits returned to their policyholders, but shall return as taxable income all income received by them from all other sources plus such portions of the premium deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves: *Provided further*, That mutual marine insurance companies shall include in their return of gross income gross premiums collected and received by them less amounts paid for reinsurance, but shall be entitled to include in deductions from gross income amounts repaid to policyholders on account of premiums previously paid by them and interest paid upon such

amounts between the ascertainment thereof and the payment thereof, and life insurance companies shall not include as income in any year such portion of any actual premium received from any individual policyholder as shall have been paid back or credited to such individual policyholder, or treated as an abatement of premium of such individual policyholder, within such year;

Third. The amount of interest paid within the year on its indebtedness to an amount of such indebtedness not in excess of the sum of (a) the entire amount of the paid-up capital stock outstanding at the close of the year, or, if no capital stock, the entire amount of capital employed in the business at the close of the year, and (b) one-half of its interest-bearing indebtedness then outstanding: *Provided*, That for the purpose of this title preferred capital stock shall not be considered interest-bearing indebtedness, and interest or dividends paid upon this stock shall not be deductible from gross income: *Provided further*, That in cases wherein shares of capital stock are issued without par or nominal value, the amount of paid-up capital stock, within the meaning of this section, as represented by such shares, will be the amount of cash, or its equivalent, paid or transferred to the corporation as a consideration for such shares: *Provided further*, That in the case of indebtedness wholly secured by property collateral, tangible or intangible, the subject of sale or hypothecation in the ordinary business of such corporation, joint-stock company or association as a dealer only in the property constituting such collateral, or in loaning the funds thereby procured, the total interest paid by such corporation, company, or association within the year on any such indebtedness may be deducted as a part of its expenses of doing business, but interest on such indebtedness shall only be deductible on an amount of such indebtedness not in excess of the actual value of such property collateral; *Provided further*, That

in the case of bonds or other indebtedness, which have been issued with a guaranty that the interest payable thereon shall be free from taxation, no deduction for the payment of the tax herein imposed, or any other tax paid pursuant to such guaranty, shall be allowed; and in the case of a bank, banking association, loan or trust company, interest paid within the year on deposits or on moneys received for investment and secured by interest-bearing certificates of indebtedness issued by such bank, banking association, loan or trust company;

Fourth. Taxes paid within the year imposed by the authority of the United States, or its Territories, or possessions, or any foreign country, or under the authority of any State, county, school district, or municipality, or other taxing subdivision of any State, not including those assessed against local benefits.

(b) In the case of a corporation, joint-stock company or association, or insurance company, organized, authorized, or existing under the laws of any foreign country, such net income shall be ascertained by deducting from the gross amount of its income received within the year from all sources within the United States—

First. All the ordinary and necessary expenses actually paid within the year out of earnings in the maintenance and operation of its business and property within the United States, including rentals or other payments required to be made as a condition to the continued use or possession of property to which the corporation has not taken or is not taking title, or in which it has no equity.

Second. All losses actually sustained within the year in business or trade conducted by it within the United States and not compensated by insurance or otherwise, including a reasonable allowance for the exhaustion, wear and tear of property arising out of its use or employment in the business or trade; (a) and in the case (a) of oil and gas wells a reasonable

allowance for actual reduction in flow and production to be ascertained not by the flush flow, but by the settled production or regular flow; (b) in the case of mines a reasonable allowance for depletion thereof not to exceed the market value in the mine of the product thereof which has been mined and sold during the year for which the return and computation are made, such reasonable allowance to be made in the case of both (a) and (b) under rules and regulations to be prescribed by the Secretary of the Treasury: *Provided*, That when the allowance authorized in (a) and (b) shall equal the capital originally invested, or in case of purchase made prior to March first, nineteen hundred and thirteen, the fair market value as of that date, no further allowance shall be made; and (c) in the case of insurance companies, the net addition, if any, required by law to be made within the year to reserve funds and the sums other than dividends paid within the year on policy and annuity contracts: *Provided*, That no deduction shall be allowed for any amount paid out for new buildings, permanent improvements, or betterments, made to increase the value of any property or estate, and no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been made: *Provided further*, That mutual fire and mutual employers' liability and mutual workmen's compensation and mutual casualty insurance companies requiring their members to make premium deposits to provide for losses and expenses shall not return as income any portion of the premium deposits returned to their policyholders, but shall return as taxable income all income received by them from all other sources plus such portions of the premium deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves: *Provided further*, That mutual marine insurance companies shall include in their return of gross income

gross premiums collected and received by them less amounts paid for reinsurance, but shall be entitled to include in deductions from gross income amounts repaid to policyholders on account of premiums previously paid by them, and interest paid upon such amounts between the ascertainment thereof and the payment thereof, and life insurance companies shall not include as income in any year such portion of any actual premium received from any individual policyholder as shall have been paid back or credited to such individual policyholder, or treated as an abatement of premium of such individual policyholder, within such year;

Third. The amount of interest paid within the year on its indebtedness to an amount of such indebtedness not in excess of the proportion of the sum of (a) the entire amount of the paid-up capital stock outstanding at the close of the year, or, if no capital stock, the entire amount of the capital employed in the business at the close of the year, and (b) one-half of its interest-bearing indebtedness then outstanding, which the gross amount of its income for the year from business transacted and capital invested within the United States bears to the gross amount of its income derived from all sources within and without the United States: *Provided*, That in the case of bonds or other indebtedness which have been issued with a guaranty that the interest payable thereon shall be free from taxation, no deduction for the payment of the tax herein imposed or any other tax paid pursuant to such guaranty shall be allowed; and in case of a bank, banking association, loan or trust company, or branch thereof, interest paid within the year on deposits by or on moneys received for investment from either citizens or residents of the United States and secured by interest-bearing certificates of indebtedness issued by such bank, banking association, loan or trust company, or branch thereof;

Fourth. Taxes paid within the year imposed by

the authority of the United States, or its Territories, or possessions, or under the authority of any State, county, school district, or municipality, or other taxing subdivision of any State, paid within the United States, not including those assessed against local benefits;

(c) In the case of assessment insurance companies, whether domestic or foreign, the actual deposit of sums with State or Territorial officers, pursuant to law, as additions to guarantee or reserve funds shall be treated as being payments required by law to reserve funds.

RETURNS.

SEC. 13. (a) The tax shall be computed upon the net income, as thus ascertained, received within each preceding calendar year ending December thirty-first: *Provided*, That any corporation, joint-stock company or association, or insurance company, subject to this tax, may designate the last day of any month in the year as the day of the closing of its fiscal year and shall be entitled to have the tax payable by it computed upon the basis of the net income ascertained as herein provided for the year ending on the day so designated in the year preceding the date of assessment instead of upon the basis of the net income for the calendar year preceding the date of assessment; and it shall give notice of the day it has thus designated as the closing of its fiscal year to the collector of the district in which its principal business office is located at any time not less than thirty days prior to the first day of March of the year in which its return would be filed if made upon the basis of the calendar year;

(b) Every corporation, joint-stock company or association, or insurance company, subject to the tax herein imposed, shall, on or before the first day of March, nineteen hundred and seventeen, and the first day of March in each year thereafter, or, if it has

designated a fiscal year for the computation of its tax, then within sixty days after the close of such fiscal year ending prior to December thirty-first, nineteen hundred and sixteen, and the close of each such fiscal year thereafter, render a true and accurate return of its annual net income in the manner and form to be prescribed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, and containing such facts, data, and information as are appropriate and in the opinion of the commissioner necessary to determine the correctness of the net income returned and to carry out the provisions of this title. The return shall be sworn to by the president, vice-president, or other principal officer, and by the treasurer or assistant treasurer. The return shall be made to the collector of the district in which is located the principal office of the corporation, company, or association, where are kept its books of account and other data from which the return is prepared, or in the case of a foreign corporation, company or association, to the collector of the district in which is located its principal place of business in the United States, or if it have no principal place of business, office, or agency in the United States, then to the collector of internal revenue at Baltimore, Maryland. All such returns shall as received be transmitted forthwith by the collector to the Commissioner of Internal Revenue;

(c) In cases wherein receivers, trustees in bankruptcy, or assignees are operating the property or business of corporations, joint-stock companies or associations, or insurance companies, subject to tax imposed by this title, such receivers, trustees, or assignees shall make returns of net income as and for such corporations, joint-stock companies or associations, and insurance companies, in the same manner and form as such organizations are hereinbefore required to make returns, and any income tax due on the basis of such returns made by receivers, trustees,

or assignees shall be assessed and collected in the same manner as if assessed directly against the organizations of whose businesses or properties they have custody and control;

(d) A corporation, joint-stock company or association, or insurance company, keeping accounts upon any basis other than that of actual receipts and disbursements, unless such other basis does not clearly reflect its income, may, subject to regulations made by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, make its return upon the basis upon which its accounts are kept, in which case the tax shall be computed upon its income as so returned;

(e) All the provisions of this title relating to the tax authorized and required to be deducted and withheld and paid to the officer of the United States Government authorized to receive the same from the income of nonresident alien individuals from sources within the United States shall be made applicable to incomes derived from interest upon bonds and mortgages or deeds of trust or similar obligations of domestic or other resident corporations, joint-stock companies or associations, and insurance companies by nonresident alien firms, co-partnerships, companies, corporations, joint-stock companies or associations, and insurance companies not engaged in business or trade within the United States and not having any office or place of business therein;

(f) Likewise, all the provisions of this title relating to the tax authorized and required to be deducted and withheld and paid to the officer of the United States Government authorized to receive the same from the income of nonresident alien individuals from sources within the United States shall be made applicable to income derived from dividends upon the capital stock or from the net earnings of domestic or other resident corporations, joint-stock companies or associations, and insurance companies by nonresident alien

companies, corporations, joint-stock companies or associations, and insurance companies not engaged in business or trade within the United States and not having any office or place of business therein.

ASSESSMENT AND ADMINISTRATION.

SEC. 14. (a) All assessments shall be made and the several corporations, joint-stock companies or associations, and insurance companies shall be notified of the amount for which they are respectively liable on or before the first day of June of each successive year, and said assessment shall be paid on or before the fifteenth day of June: *Provided*, That every corporation, joint-stock company or association, and insurance company, computing taxes upon the income of the fiscal year which it may designate in the manner hereinbefore provided, shall pay the taxes due under its assessment within one hundred and five days after the date upon which it is required to file its list or return of income for assessment; except in cases of refusal or neglect to make such return, and in cases of erroneous, false, or fraudulent returns, in which cases the Commissioner of Internal Revenue shall, upon the discovery thereof, at any time within three years after said return is due, make a return upon information obtained as provided for in this title or by existing law; and the assessment made by the Commissioner of Internal Revenue thereon shall be paid by such corporation, joint-stock company or association, or insurance company immediately upon notification of the amount of such assessment; and to any sum or sums due and unpaid after the fifteenth day of June in any year, or after one hundred and five days from the date on which the return of income is required to be made by the taxpayer, and after ten days' notice and demand thereof by the collector, there shall be added the sum of five per centum on the amount of tax unpaid and interest at the rate of one per centum per month upon said tax from the time

the same becomes due: *Provided*, That upon the examination of any return of income made pursuant to this title, the Act of August fifth, nineteen hundred and nine, entitled, "An Act to provide revenue, equalize duties and encourage the industries of the United States, and for other purposes," and the Act of October third, nineteen hundred and thirteen, entitled, "An Act to reduce tariff duties and to provide revenue for the Government, and for other purposes," if it shall appear that amounts of tax have been paid in excess of those properly due, the taxpayer shall be permitted to present a claim for refund thereof notwithstanding the provisions of section thirty-two hundred and twenty-eight of the Revised Statutes;

(b) When the assessment shall be made, as provided in this title, the returns together with any corrections thereof which may have been made by the commissioner, shall be filed in the office of the Commissioner of Internal Revenue and shall constitute public records and be open to inspection as such: *Provided*, That any and all such returns shall be open to inspection only upon the order of the President, under rules and regulations to be prescribed by the Secretary of the Treasury and approved by the President: *Provided further*, That the proper officers of any State imposing a general income tax may, upon the request of the governor thereof, have access to said returns or to an abstract thereof, showing the name and income of each such corporation, joint-stock company or association, or insurance company, at such times and in such manner as the Secretary of the Treasury may prescribe;

(c) If any of the corporations, joint-stock companies or associations, or insurance companies aforesaid shall refuse or neglect to make a return at the time or times hereinbefore specified in each year, or shall render a false or fraudulent return, such corporation, joint-stock company or association, or insurance company shall be liable to a penalty of not

exceeding \$10,000: *Provided*, That the Commissioner of Internal Revenue shall have authority, in the case of either corporations or individuals, to grant a reasonable extension of time in meritorious cases, as he may deem proper.

(d) That section thirty-two hundred and twenty-five of the Revised Statutes of the United States be, and the same is hereby, amended so as to read as follows:

"SEC. 3225. When a second assessment is made in case of any list, statement, or return, which in the opinion of the collector or deputy collector was false or fraudulent, or contained any understatement or undervaluation, no tax collected under such assessment shall be recovered by any suit unless it is proved that the said list, statement, or return was not false nor fraudulent and did not contain any understatement or undervaluation; but this section shall not apply to statements or returns made or to be made in good faith under the laws of the United States regarding annual depreciation of oil or gas wells and mines."

PART III.—GENERAL ADMINISTRATIVE PROVISIONS.

SEC. 15. That the word "State" or "United States" when used in this title shall be construed to include any Territory, the District of Columbia, Porto Rico, and the Philippine Islands, when such construction is necessary to carry out its provisions.

SEC. 16. That sections thirty-one hundred and sixty-seven, thirty-one hundred and seventy-two, thirty-one hundred and seventy-three and thirty-one hundred and seventy-six of the Revised Statutes of the United States as amended are hereby amended so as to read as follows:

"SEC. 3167. It shall be unlawful for any collector, deputy collector, agent, clerk, or other officer or employee of the United States to divulge or to make known in any manner whatever not provided by law to any person the operations, style of work, or appa-

ratus of any manufacturer or producer visited by him in the discharge of his official duties, or the amount or source of income, profits, losses, expenditures, or any particular thereof, set forth or disclosed in any income return, or to permit any income return or copy thereof or any book containing any abstract or particulars thereof to be seen or examined by any person except as provided by law; and it shall be unlawful for any person to print or publish in any manner whatever not provided by law any income return or any part thereof or source of income, profits, losses, or expenditures appearing in any income return; and any offense against the foregoing provision shall be a misdemeanor and be punished by a fine not exceeding \$1,000 or by imprisonment not exceeding one year, or both, at the discretion of the court; and if the offender be an officer or employee of the United States he shall be dismissed from office or discharged from employment.

"SEC. 3172. Every collector shall, from time to time, cause his deputies to proceed through every part of his district and inquire after and concerning all persons therein who are liable to pay any internal-revenue tax, and all persons owning or having the care and management of any objects liable to pay any tax, and to make a list of such persons and enumerate said objects.

"SEC. 3173. It shall be the duty of any person, partnership, firm, association, or corporation, made liable to any duty, special tax, or other tax imposed by law, when not otherwise provided for, (1) in case of a special tax, on or before the thirty-first day of July in each year, (2) in case of income tax on or before the first day of March in each year, or on or before the last day of the sixty-day period next following the closing date of the fiscal year for which it makes a return of its income, and (3) in other cases before the day on which the taxes accrue, to make a list or return, verified by oath, to the collector or a

deputy collector of the district where located, of the articles or objects, including the amount of annual income charged with a duty or tax, the quantity of goods, wares, and merchandise, made or sold and charged with a tax, the several rates and aggregate amount, according to the forms and regulations to be prescribed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, for which such person, partnership, firm, association, or corporation is liable: *Provided*, That if any person liable to pay any duty or tax, or owning, possessing, or having the care or management of property, goods, wares, and merchandise, article or objects liable to pay any duty, tax, or license, shall fail to make and exhibit a list or return required by law, but shall consent to disclose the particulars of any and all the property, goods, wares, and merchandise, articles, and objects liable to pay any duty or tax, or any business or occupation liable to pay any tax as aforesaid, then, and in that case, it shall be the duty of the collector or deputy collector to make such list or return, which, being distinctly read, consented to, and signed and verified by oath by the person so owning, possessing, or having the care and management as aforesaid, may be received as the list of such person: *Provided further*, That in case no annual list or return has been rendered by such person to the collector or deputy collector as required by law, and the person shall be absent from his or her residence or place of business at the time the collector or a deputy collector shall call for the annual list or return, it shall be the duty of such collector or deputy collector to leave at such place of residence or business, with some one of suitable age and discretion, if such be present, otherwise to deposit in the nearest post office, a note or memorandum addressed to such person, requiring him or her to render to such collector or deputy collector the list or return required by law within ten days from the date of such note or memorandum, verified by

oath. And if any person, on being notified or required as aforesaid, shall refuse or neglect to render such list or return within the time required as aforesaid, or whenever any person who is required to deliver a monthly or other return of objects subject to tax fails to do so at the time required, or delivers any return which, in the opinion of the collector, is erroneous, false, or fraudulent, or contains any undervaluation or understatement, or refuses to allow any regularly authorized Government officer to examine the books of such person, firm, or corporation, it shall be lawful for the collector to summon such person, or any other person having possession, custody, or care of books of account containing entries relating to the business of such person, or any other person he may deem proper, to appear before him and produce such books at a time and place named in the summons, and to give testimony or answer interrogatories, under oath, respecting any objects or income liable to tax or the returns thereof. The collector may summon any person residing or found within the State or Territory in which his district lies; and when the person intended to be summoned does not reside and can not be found within such State or Territory, he may enter any collection district where such person may be found and there make the examination herein authorized. And to this end he may there exercise all the authority which he might lawfully exercise in the district for which he was commissioned: *Provided*, That 'person,' as used in this section, shall be construed to include any corporation, joint-stock company or association, or insurance company when such construction is necessary to carry out its provisions.

"SEC. 3176. If any person, corporation, company, or association fails to make and file a return or list at the time prescribed by law, or makes, wilfully or otherwise, a false or fraudulent return or list, the collector or deputy collector shall make the return or list from his own knowledge and from such information

as he can obtain through testimony or otherwise. Any return or list so made and subscribed by a collector or deputy collector shall be *prima facie* good and sufficient for all legal purposes.

"If the failure to file a return or list is due to sickness or absence the collector may allow such further time, not exceeding thirty days, for making and filing the return or list as he deems proper.

"The Commissioner of Internal Revenue shall assess all taxes, other than stamp taxes, as to which returns or lists are so made by a collector or deputy collector. In case of any failure to make and file a return or list within the time prescribed by law or by the collector, the Commissioner of Internal Revenue shall add to the tax fifty per centum of its amount except that, when a return is voluntarily and without notice from the collector filed after such time and it is shown that the failure to file was due to a reasonable cause and not to wilful neglect, no such addition shall be made to the tax. In case a false or fraudulent return or list is wilfully made, the Commissioner of Internal Revenue shall add to the tax one hundred per centum of its amount.

"The amount so added to any tax shall be collected at the same time and in the same manner and as part of the tax unless the tax has been paid before the discovery of the neglect, falsity, or fraud, in which case the amount so added shall be collected in the same manner as the tax."

SEC. 17. That it shall be the duty of every collector of internal revenue, to whom any payment of any taxes is made under the provisions of this title, to give to the person making such payment a full written or printed receipt, expressing the amount paid and the particular account for which such payment was made; and whenever such payment is made such collector shall, if required, give a separate receipt for each tax paid by any debtor, on account of payments made to or to be made by him to separate creditors in

such form that such debtor can conveniently produce the same separately to his several creditors in satisfaction of their respective demands to the amounts specified in such receipts; and such receipts shall be sufficient evidence in favor of such debtor to justify him in withholding the amount therein expressed from his next payment to his creditor; but such creditor may, upon giving to his debtor a full written receipt, acknowledging the payment to him of whatever sum may be actually paid, and accepting the amount of tax paid as aforesaid (specifying the same) as a further satisfaction of the debt to that amount, require the surrender to him of such collector's receipt.

SEC. 18. That if any individual liable to make the return or pay the tax aforesaid shall refuse or neglect to make such return at the time or times hereinbefore specified in each year, he shall be liable to a penalty of not less than \$20 nor more than \$1,000. Any individual or any officer of any corporation, joint-stock company or association, or insurance company required by law to make, render, sign, or verify any return who makes any false or fraudulent return or statement with intent to defeat or evade the assessment required by this title to be made shall be guilty of a misdemeanor, and shall be fined not exceeding \$2,000 or be imprisoned not exceeding one year, or both, in the discretion of the court, with the costs of prosecution: *Provided*, That where any tax heretofore due and payable has been duly paid by the taxpayer, it shall not be recollected from any person or corporation required to retain it at its source, nor shall any penalty be imposed or collected in such cases from the taxpayer, or such person or corporation whose duty it was to retain it, for failure to return or pay the same, unless such failure was fraudulent and for the purpose of evading payment.

SEC. 19. That the collector or deputy collector shall require every return to be verified by the oath of the

party rendering it. If the collector or deputy collector have reason to believe that the amount of any income returned is understated, he shall give due notice to the person making the return to show cause why the amount of the return should not be increased, and upon proof of the amount understated may increase the same accordingly. Such person may furnish sworn testimony to prove any relevant facts, and, if dissatisfied with the decision of the collector, may appeal to the Commissioner of Internal Revenue for his decision under such rules of procedure as may be prescribed by regulation.

SEC. 20. That jurisdiction is hereby conferred upon the district courts of the United States for the district within which any person summoned under this title to appear to testify or to produce books shall reside, to compel such attendance, production of books, and testimony by appropriate process.

SEC. 21. That the preparation and publication of statistics reasonably available with respect to the operation of the income tax law and containing classifications of taxpayers and of income, the amounts allowed as deductions and exemptions, and any other facts deemed pertinent and valuable, shall be made annually by the Commissioner of Internal Revenue with the approval of the Secretary of the Treasury.

SEC. 22. That all administrative, special, and general provisions of law, including the laws in relation to the assessment, remission, collection, and refund of internal-revenue taxes not heretofore specifically repealed and not inconsistent with the provisions of this title, are hereby extended and made applicable to all the provisions of this title and to the tax herein imposed.

SEC. 23. That the provisions of this title shall extend to Porto Rico and the Philippine Islands: *Provided*, That the administration of the law and the collection of the taxes imposed in Porto Rico and the Philippine Islands shall be by the appropriate inter-

nal-revenue officers of those governments, and all revenues collected in Porto Rico and the Philippine Islands thereunder shall accrue intact to the general Governments thereof, respectively: *Provided further*, That the jurisdiction in this title conferred upon the district courts of the United States shall, so far as the Philippine Islands are concerned, be vested in the courts of the first instance of said islands: *And provided further*, That nothing in this title shall be held to exclude from the computation of the net income the compensation paid any official by the governments of the District of Columbia, Porto Rico, and the Philippine Islands, or the political subdivisions thereof.

SEC. 24. That Section II of the Act approved October third, nineteen hundred and thirteen, entitled "An Act to reduce tariff duties and to provide revenue for the Government, and for other purposes," is hereby repealed, except as herein otherwise provided, and except that it shall remain in force for the assessment and collection of all taxes which have accrued thereunder, and for the imposition and collection of all penalties or forfeitures which have accrued or may accrue in relation to any of such taxes, and except that the unexpended balance of any appropriation heretofore made and now available for the administration of such section or any provision thereof shall be available for the administration of this title or the corresponding provision thereof.

SEC. 25. That income on which has been assessed the tax imposed by Section II of the Act entitled "An Act to reduce tariff duties and to provide revenue for the Government, and for other purposes," approved October third, nineteen hundred and thirteen, shall not be considered as income within the meaning of this title: *Provided*, That this section shall not conflict with that portion of section ten, of this title, under which a taxpayer has fixed its own fiscal year.

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SEC. 902. That unless otherwise herein specially provided, this Act shall take effect on the day following its passage, and all provisions of any Act or Acts inconsistent with the provisions of this Act are hereby repealed.

Approved, September 8, 1916.

IV.

BRIEF HISTORY OF THE MASSACHUSETTS INCOME TAX LAW.

May 19, 1915. The State Legislature adopted an Amendment to the State Constitution, striking out the word "proportional" in relation to taxation. This Amendment was subsequently submitted to the people and ratified.

May 26, 1916. The State Legislature enacted the present Income Tax Law levying a tax on the inhabitants of the Commonwealth of one and one-half per cent. on annual net incomes from annuities, trades and professions; six per cent. on annual net income from intangible property such as stocks, bonds and other securities and three per cent. on net profits derived from dealings in intangible property.

V.

**HIGH SPOTS OF THE MASSACHUSETTS
INCOME TAX LAW ARRANGED
ALPHABETICALLY.**

ABATEMENTS.

Application for an abatement may be made to the Tax Commissioner within three months of the date of the tax bill and provided an Income Return has been filed.

An appeal lies either to the Board of Appeal or to the Superior Court, but must be taken within thirty days after notice of the decision of the Tax Commissioner.

Where an income return is filed after March 1st, the abatement will not reduce the tax below double the amount properly taxable.

ACCIDENT INSURANCE.

The proceeds of accident insurance policies need not be returned as income.

ADMINISTRATORS.

An administrator is required to make a return on or before March 1st covering taxable income received during the preceding year. Form 2 should be used.

If appointed after March 1st and the deceased died after January 1st without filing an Income

Return, the administrator should at once file the same.

Administrators must also make a return of net profits and file a list of employees receiving over \$1800. Form 6 should be used.

Where a final account is allowed during any year, no return covering that year is required from the administrator, but the beneficiaries must include the income in their individual returns.

ALIMONY.

Alimony is not taxable and need not be returned as income.

ANNUITIES.

Annuities which must be returned as income are those which are contingent upon life and cease upon death. The tax rate is one and one-half per cent. Payments under a will or trust are not taxable as annuities.

APPEALS.

See "Abatements."

ASSIGNEES.

Assignees for the benefit of creditors where such assignees are inhabitants of Massachusetts or appointed by a Massachusetts court are required to make returns of income and are taxed in the same manner as individuals, except that income payable to a non-resident is exempt.

AUTOMOBILES.

An automobile is tangible property and should be included in the local tax return for 1917 and thereafter.

The expense of an automobile when used entirely in business is a proper deduction.

BAD DEBTS.

A deduction for bad debts is allowed only where the debt arose during 1916 from some business and was actually found to be worthless and charged off on the books during the same year.

BANKS.

Banks are required to file a list of employees receiving over \$1800. Use Form 6. For the case of banks acting in a fiduciary capacity, see "Fiduciaries." For taxation of income from deposits in national banks, trust companies and savings banks, see "Deposits."

BENEFICIARIES.

Beneficiaries need not include in their individual returns the income received from trustees or other fiduciaries, although they should include all other taxable income received. Use Form 1. Beneficiaries must return taxable income received from fiduciaries appointed by courts outside of Massachusetts or from trustees who reside outside of Massachusetts.

Where the total income does not exceed \$600, the beneficiary should claim his \$300 exemption.

BETTERMENTS.

Betterment assessments, including sewer, sidewalk and gypsy moth assessments, are not allowed as deductions.

BLANK FORMS.

Blank Forms for Returns of Individuals, Partnerships, Fiduciaries and Corporations may be obtained from the Income Tax Commissioner at the State House. While the Commissioner may mail Blank Forms in certain cases the non-receipt of

such Forms does not excuse the tax-payer for failure to file the Returns as required by the Income Tax Law.

BONDS.

Coupons and registered interest received on all bonds other than those which are tax exempt should be returned as income.

The tax exempt bonds are United States bonds and Massachusetts, State, County and Municipal bonds marked on their face "tax exempt."

The net profit on sales of bonds is taxable at three per cent. and should be returned.

In determining the profit, the value as of January 1, 1916, is taken as the cost price, except where purchase was made after January 1st in which case the actual cost price including broker's commission controls.

Selling price is the actual amount received less commission and stamp tax.

BROKERS.

See "Professional Men."

BUSINESS MEN.

See "Merchants."

CAPITAL ASSETS.

A distribution of capital assets is not regarded as a distribution of income and need not be returned, but a distribution of accumulated earnings is income. See "Stock Dividends."

CHILDREN.

An individual in his Return is entitled to a deduction from business income of \$250 for each minor child under eighteen years of age, although

the total deduction for husband or wife, dependent parent and children is limited to \$1000.

CLUBS.

Unincorporated clubs, while legally treated as partnerships for some purposes, are not so treated under the Income Tax Law unless organized for profit and are not required to file Income Returns.

They must, however, file a list on Form 6 of employees receiving over \$1800 and a list on Form 7 of residents of Massachusetts who are paid taxable interest other than by coupons payable to bearer.

COLLATERAL.

The income from property pledged as collateral security for a debt is taxable to the owner and must be included in his Income Return.

CONSERVATORS.

See "Fiduciaries."

CORPORATIONS.

Corporations as such are not required to file Income Tax Returns in connection with their own business, hence, under the present law, an individual who owns stocks, bonds or other intangible property, the income from which is taxable, or who derives a net profit from dealings in taxable securities may by incorporating himself save the 6% tax on income and the 3% tax on net profits which he is required to pay as an individual.

Corporations acting as executors, guardians, trustees, or in any fiduciary capacity are required to file an Income Return on or before March 1st similar to that required of individuals.

All corporations, domestic and foreign, must file a list on Form 6 of employees receiving over \$1800 and a list on Form 7 of residents of Massachusetts paid annuities or to whom interest payments have been made during 1916 other than in the form of coupons payable to bearer.

Foreign corporations doing business in Massachusetts must file on or before March 1st a list of Massachusetts shareholders as of the previous December 31st.

Domestic corporations are not required to file a list of shareholders.

Charitable and other organizations not organized for profit must file lists of employees and lists of interest payments as in the case of other corporations.

COUPONS.

See "Interest."

CUSTOM DUTIES.

Custom duties when paid by a merchant in the course of business are a business expense and may be deducted. If paid by an individual on personal effects they are treated as personal or living expenses and cannot be deducted.

DEBTS.

Interest received from debts receivable is taxable income.

Interest paid on notes or debts payable is a proper deduction when made in connection with a business. See "Bad Debts."

DEDUCTIONS.

Deductions allowed from taxable income from stocks, bonds and other intangibles are limited to interest payments. See "Bulletin No. 1," page 29.

The following deductions are allowed a merchant or professional man:

Expenses of doing business but not including personal or living expenses.

Depreciation to a reasonable amount.

Taxes and interest paid in connection with the business.

Losses from the sale of tangible capital assets and uninsured losses from fire, theft, tort and contract.

Bad debts actually incurred and charged off as worthless during the year.

An amount equal to 5% of the assessed valuation of merchandise and other tangible property, used in the business and whether situated within or without the Commonwealth.

A deduction of \$500 for a husband or wife, \$250 for a child under eighteen, or a dependent parent, the total of these deductions however not to exceed \$1000.

DEPOSITS.

Deposits in a Massachusetts savings bank or deposits of not over \$1000 in the savings department of a trust company are exempt and the income therefrom need not be returned; deposits in excess of \$1000 in a trust company are not so exempt and the whole of the income therefrom must be returned.

Deposits in national banks and trust companies other than as above are not exempt and the income therefrom is taxable at 6%.

DENTISTS.

See "Professional Men."

DEPRECIATION.

A reasonable deduction is allowed for depreciation in the case of a merchant or professional man.

DIRECTORS' FEES.

Fees paid to directors for attendance of meetings if a gift are not taxable, but if paid as compensation they are taxable.

DIVIDENDS.

Dividends received from Massachusetts corporations, national banks and from the American Tel. & Tel. Co., New England Tel. & Tel. Company and Western Union Tel. Company are not taxable and need not be returned as income.

Dividends from foreign corporations are taxable.

Dividends from transferable shares of partnerships, associations and trusts need not be returned, provided such partnerships, associations and trusts have filed with the Tax Commissioner an agreement to pay the tax.

Dividends taxed as income at six per cent. are not again taxed under the one and one half per cent. tax on income from a business or profession.

See "Stock Dividends."

DOCTORS.

See "Professional Men."

EMPLOYEES.

Lists of employees receiving salaries or other compensation in excess of \$1800 must be filed on Form 6 on or before March 1st by every individual, fiduciary, partnership and corporation.

EXECUTORS.

An executor is required to make a Return on or before March 1st covering taxable income received

during the preceding year. Form 2 should be used.

If appointed after March 1st and the deceased died after January 1st without filing an Income Return, the executor should at once file the same.

Executors must file returns of net profit from dealings in intangible property and a list of employees receiving over \$1800.

Where a final account is allowed during the year, no return covering that year is required, but the beneficiaries must include the income in their individual returns.

Executors should see to it that beneficiaries file with them such claims of exemption as they are entitled to.

EXEMPTIONS.

The following classes of income are exempt.

Two thousand dollars of business or professional income.

Income from real estate.

Dividends on shares of Massachusetts corporations and national banks. Dividends on shares of American Tel. & Tel. Co., New England Tel. & Tel. Co. and Western Union Tel. Co.

Dividends on transferable shares of partnerships, associations and trusts which file an agreement with the Tax Commissioner to pay their own tax.

Interests on deposits in Massachusetts savings banks or deposits of not over \$1000, in the savings departments of trust companies.

Interest on deposits in Massachusetts Hospital Life Insurance Company.

Interest from United States, and State, County and Municipal bonds marked "tax exempt."

Interest on mortgage loans secured by Massachusetts real estate which is taxed as much or more than the amount of the loan and all prior liens.

There is an exemption up to \$1000 on account of husband, wife, minor children and dependent parents. See "Deductions."

Persons whose total income from all sources does not exceed \$600 have an exemption of \$300.

EXPENSES.

Business expenses may be deducted by a merchant or professional man taxable at the one and one-half per cent. rate.

Personal and living expenses are not deductible. See "Deductions."

FIDUCIARIES.

Executors, administrators, trustees, guardians, conservators, trustees in bankruptcy, receivers except of Massachusetts corporations, assignees for the benefit of creditors where such assignees are inhabitants of Massachusetts or derive their appointment from a Massachusetts court are taxable in their fiduciary capacity and are required to file Income Returns on or before March 1st on Form 2 provided, of course, that they have received taxable income during the preceding year.

Fiduciaries must also file a Return of net profits and list of employees receiving over \$1800 the same as individuals.

FIRE LOSS.

An uninsured fire loss is a proper deduction for a merchant or professional man, provided that such loss occurs in connection with the business.

FORMS.

Form 1 is for an individual, professional man or individual merchant.

Form 2 is for fiduciaries.

Form 3 is for ordinary partnerships.

Form 4 is for partnerships having transferable shares.

Form 5 is for the settlement of taxes by fiduciaries.

Form 6 is for lists of employees receiving over \$1800.

Form 7 is for lists of annuitants and interest payments to Massachusetts residents.

GIFTS.

Gifts and legacies are not regarded as income and need not be returned.

GUARDIANS.

Guardians are required to make the same returns and are subject to the same taxes as other fiduciaries. See "Fiduciaries."

HUSBAND AND WIFE.

A husband is entitled to an exemption of \$500 for a wife living with him, of \$250 for each child under eighteen and of \$250 for a dependent parent. Total exemption not to exceed \$1000.

A wife is entitled to the same exemptions.

INCOME TAXABLE.

Six Per Cent. The following income is taxable at six per cent.

Dividends on shares of foreign corporations except shares in national banks and of the American Tel. & Tel. Co., New England Tel. & Tel. Co. and Western Union Tel. Co.

Dividends on shares of partnerships, associations and trusts having transferable shares except where such partnerships, associations and trusts have filed with the Tax Commissioner an agreement to pay the tax.

Interest on bonds and notes of all corporations, domestic and foreign, except United States bonds and such Massachusetts, State, County and Municipal bonds as are marked "tax exempt" and except mortgage notes secured by Massachusetts real estate, taxed as much or more than the amount of the loan and all prior liens.

Interest on loans and debts receivable.

Interest on deposits in national banks and trust companies except deposits not exceeding \$1000 in savings departments of trust companies, and except deposits in the Massachusetts Hospital Life Insurance Company.

One and One-Half Per Cent. The following income is taxable at one and one-half per cent.

Per Cent. Income from annuities.

Excess over \$2000 of wages, salary or other compensation except salaries paid by the United States Government.

Excess over \$2000 of net taxable income from a trade or business.

Three Per Cent. The following income is taxable at three per cent.

The excess of gains over losses received from purchases and sales of stocks, bonds and other intangible property whether taxable or non-taxable.

INCOME NON TAXABLE.

Dividends from Massachusetts corporations and national banks.

Dividends from American Tel. & Tel. Co., New England Tel. & Tel. Co. and Western Union Tel. Co.

Dividends from partnerships, associations and trusts who have filed with the Tax Commissioner an agreement to pay the tax.

Deposits in Massachusetts savings banks.

Deposits not exceeding \$1000 in savings departments of trust companies.

Wages, salary or other compensation up to \$2000.

Business and professional income up to \$2000.

Interest on United States bonds and from Massachusetts State, County and Municipal bonds marked "tax exempt."

See "Salaries."

INFORMATION REQUIRED FOR PREPARING INDIVIDUAL RETURNS.

In the case of an individual receiving a salary or wages, a professional man or an individual who conducts his own business, the following information covering the year 1916 is required for the preparation of individual returns.

Tax Payer's Full Name.

Home and Business Address.

Principal Business.

Wife's Name.

Names and Date of Birth of Children under 18 years.

Names of Dependent Parents.

List of Employees paid in excess of \$1800.

Names and Addresses of Fiduciaries from whom income was received.

Did the Gross Income from all sources taxable and non-taxable exceed \$2000?

Was such Gross Income in excess of \$600?

Were you a member of any partnership?

If a salaried man your gross wages.

If a professional man your gross business income.

If an individual business man your gross profits.

Business expenses for

Labor, wages and commissions.

Fuel, light and heat.

Rent.

Taxes.

Other Expenses.

Income from annuities, if any.

Coupons and interest received from deposits, loans and taxable bonds.

Dividends received from foreign corporations.

INSURANCE.

Proceeds of life or endowment insurance are not regarded as income.

Dividends paid by life insurance companies in the nature of a return premium are not regarded as income.

Fire insurance received as indemnity for property destroyed is not income.

The cost of insurance in connection with a business is a proper deduction.

The cost of insurance on the taxpayer's home is a personal or living expense and not deductible.

INTEREST.

For interest which is regarded as taxable income or which may be deducted, see "Income Taxable and Income Non-Taxable."

For interest allowed on intangible property pledged as collateral, see "Bulletin No. 1," issued by the Tax Commissioner.

For interest on deposits in banks and trust companies, see "Deposits."

INVENTORY.

The Income Tax Law calls for a Return based primarily on actual cash receipts and disbursements, but with the consent of the Tax Commissioner Returns may be made on an inventory of profit and loss basis. Where returns are based on inventories, Form 1b should be used.

LAWYERS AND JUDGES.

See "Professional Men."

LIFE INSURANCE.

See "Insurance."

LIMITED PARTNERSHIPS.

Limited partnerships are not specifically mentioned in the Income Tax Law. They should make returns and are taxed as ordinary partnerships.

LIVING EXPENSES.

Living and personal expenses are not deductible in an individual Return.

LIVING QUARTERS.

The value of living quarters furnished to an individual as part of his compensation should be returned as income.

LOSSES.

Losses actually sustained in trade on debts receivable incurred in 1916 and which have been determined to be worthless and actually charged off during 1916 may be deducted by a merchant or professional man liable for the $1\frac{1}{2}\%$ tax on business income.

Losses incurred by an individual in dealings in intangible personal property may be offset against gains. Only the net gains are taxed.

MARGIN.

Stocks, bonds or other securities carried on margin with a broker are regarded as the property of the client and the income therefrom should be accounted for by the client in his individual return.

MERCHANTS.

Merchants doing business as individuals and professional men whose income from all sources, taxable and non-taxable, exceeds \$2000 are required to file an Income Tax Return on or before March 1st. Form 1 should be used. The Return must be filed even though the allowable deductions bring the net taxable income below \$2000.

They may return their income either on the basis of actual cash receipts and disbursements or on an inventory or profit and loss basis, whichever they prefer, although in the latter case permission of the Tax Commissioner must be first obtained.

A merchant's drawing account, even though carried on the books as wages or salary, must not be included in the expenses as it is presumed to be paid from the net profits of the business.

They must return on Form 6 a list of employees receiving over \$1800.

For a list of what is allowable as business expenses, see "Deductions."

See also "Professional Men."

MORTGAGES.

Interest on mortgages which are secured by real estate located in Massachusetts need not be returned as income where such mortgages and all prior liens do not exceed the assessed value of such real estate.

NOTES.

See "Income Taxable" and "Interest."

OBSOLESCENCE.

See "Deductions."

PARENTS.

See "Exemptions."

PARTNERSHIPS.

Business partnerships are required to make Partnership Returns of partnership income on Form 3.

The individual partners are not required to make returns unless they receive other taxable income and when such returns are made they need not include partnership income.

Partnerships must return list of employees receiving over \$1800 on Form 6.

**PARTNERSHIPS, ASSOCIATIONS AND
TRUSTS HAVING TRANSFER-
ABLE SHARES.**

Partnerships, associations and trusts having transferable shares are required to file Income Tax Returns.

They must also file lists of employees receiving over \$1800 on Form 6.

They may agree with the Tax Commissioner to pay the Income Tax in which case their shareholders are exempt. Such agreement should be filed on Form 4.

They are required to file a list of Massachusetts residents to whom interest is paid on bonded or other indebtedness. Form 7 should be used.

They are required, unless they file the agreement above referred to, to file a list of their shareholders.

PENALTIES.

For failure to file Returns on or before March 1st, unless reasonable excuse satisfactory to the Tax Commissioner is made, the penalty is \$5 per day.

Failure to file Returns after notice from the Tax Commissioner involves fine or imprisonment.

Failure to file list of employees and statement of taxable interest and annuities paid to Massachusetts residents involves a fine.

Failure upon the part of a foreign corporation to file a list of Massachusetts shareholders involves a fine.

Penalties affect individuals, fiduciaries, partnerships, trusts and corporations.

PENSIONS.

U. S. Government, Teachers and State Employees pensions are not regarded as annuities and need not be returned. If the pension formed a part of the contract of employment with a corporation, firm or individual and can be claimed as a matter of right, it is an annuity and taxable.

PROFESSIONAL MEN.

Professional men, including Lawyers, Doctors, Dentists, Architects, Brokers, Teachers, Judges, etc., like merchants, must make a Return if their gross income from all sources exceeds \$2000. Form 1 should be used. This is true even though their

allowable deductions bring their net taxable income to below \$2000.

They may deduct expenses of doing business. See "Deductions."

They may make a Return on a cash basis, that is, based on actual cash receipts and disbursements, or on an inventory or profit and loss basis if permitted to do so by the Tax Commissioner.

Professional men must return as income not only the net profits accruing from their business, but their individual income from taxable stocks, bonds and other intangible property and their net profits from dealings in intangible property.

They must file on Form 6 a list of employees receiving over \$1800. See "Business Men."

PROFITS AND LOSSES.

The excess of profits over losses is taxable at three per cent. This tax applies only to intangible property such as stocks, bonds and other securities, but covers both taxable and non-taxable securities.

Profit is based on January 1, 1916 value, but where property is purchased subsequent to January 1st, the cost is based on actual cost including commission. Selling price is based on actual selling price including commission and stamp tax.

The real owner and not the broker or other person in whose name the securities may stand is liable for the tax.

REAL ESTATE.

Generally speaking, profits and losses arising from the purchase and sale of real estate as well as rents received from real estate are non-taxable.

Where, however, the principal business of an individual is that of a dealer in real estate his net profits and rents will be regarded as business income taxable at $1\frac{1}{2}\%$.

RECEIVERS.

See "Fiduciaries."

RENTS.

Rents received from real estate are not taxable, except in the case of a dealer in real estate.

Rent paid is a proper business expense for a business or professional man.

The value of living quarters furnished as part of the compensation of an individual should be returned as income.

Rent paid for the occupancy of the tax-payer's own house is a living expense and not deductible.

RETURNS.

Income Tax Returns will be held in strict confidence by the state authorities. Heavy penalties are imposed for any disclosure of their contents. Local tax assessors will not be permitted to examine the Income Tax Return filed with the Income Tax Commissioner.

Income Tax Returns. Every individual inhabitant of Massachusetts, male or female, every partnership, association, or trust, and every executor, administrator, trustee, guardian, conservator, trustee in bankruptcy appointed in Massachusetts, assignee for the benefit of creditors, and receivers for foreign corporations are re-

quired to file an Income Tax Return on or before March 1st if they received during 1916 income from any of the following sources:

Gross income exceeding \$2000 from any source whatever taxable or non-taxable.

Income from an annuity irrespective of the amount.

Interest to any amount from bonds of corporations, domestic or foreign, excepting only bonds of the United States, and such State and municipal bonds as are stamped "tax exempt."

Interest to any amount from deposits in national banks, from money loaned, from notes, or other debts receivable, except mortgage notes secured by Massachusetts real estate.

Interest to any amount from deposits exceeding \$1000 in any savings bank or savings department of a trust company, excepting only a deposit in the Massachusetts Hospital Life Insurance Co.

Dividends to any amount from foreign corporations except national banks and except dividends of the American Tel. & Tel. Co., the New England Tel. & Tel. Co. and the Western Union Telegraph Company.

Dividends to any amount from real estate trusts and other associations and trusts having transferable shares except from those having filed their agreement with the Tax Commissioner to pay their own tax.

Net profits to any amount arising from the purchase and sale of stocks, bonds and other intangible property.

Income Tax Returns are required in the above cases, even though by reason of allowable deductions no tax is assessed.

Local Returns. A Local Return for 1917 should be made to local assessors where the tax-payer resides, covering tangible personal property as of April 1st. Unless the local return is made, the tax-payer will be required to pay the same tax on all personal property as was assessed to him in 1916. Wherever a local personal tax was assessed in 1916, it is necessary to the tax-payer's protection to make a local return in 1917 even though there is no tangible property.

List of Employees. Every individual, fiduciary, partnership, association or trust and every corporation doing business in Massachusetts is required to file on or before March 1st a list of employees who were paid in excess of \$1800 during 1916.

List of Shareholders and Interest Payments. Every foreign corporation, every partnership and every association or trust having transferable shares is required to file on or before March 1st a list of its Massachusetts shareholders as of December 31, 1916, and a list of all residents of Massachusetts to whom it has paid annuities or interest payments during 1916, except in the case of coupons payable to bearer and of income which is tax exempt.

RIGHTS.

Rights under Massachusetts law are treated as capital and need not be returned as income. If sold, they are taxed as gain from dealing in intangible personal property, at 3%.

SALARIES.

Salaries received from the United States Government are not taxable. All other salaries are regarded as income and should be returned.

A bonus, if a gift, need not be returned, but if paid pursuant to a contract, express or implied, as additional compensation for services rendered, the bonus should be returned as salary.

Where the value of living quarters is included as part of the compensation paid to an individual, it should be treated as salary paid.

Lists of salaries paid in excess of \$1800 must be filed on or before March 1st by individuals, partnerships, associations, trustees, fiduciaries and corporations. Form 6 should be used.

SAVINGS BANKS.

Deposits up to \$1000 in savings banks or savings departments of trust companies are exempt from taxation and the income therefrom need not be returned.

Savings banks are required to file lists of salaries exceeding \$1800. Form 6 should be used.

SCRIP.

Scrip certificates issued by a corporation in lieu of dividends are income and should be so returned.

STOCKS AND BONDS.

See "Income Taxable," "Income Non-Taxable" and "Bonds."

Stocks purchased on margin are the property of the client and not of the broker, and the income therefrom must be returned by the owner.

STOCK DIVIDENDS.

Where stock dividends represent a distribution of accumulated earnings they are taxable as income. Where they represent a distribution of capital assets they are not regarded as income.

TAXES.

The Income Tax Law imposes a tax upon three kinds of income, viz.:

Six Per Cent. A six per cent. tax on income from certain intangible property including stocks, bonds, notes, debts, National Bank and Trust Company deposits, money at interest, and transferable shares of partnerships, associations and trusts which have not filed an agreement to pay the tax.

One and One-Half Per Cent. A one and one-half per cent. tax on income from annuities and on the excess over \$2000 of income from professions, employments, trades or business.

Three Per Cent. A three per cent. tax on the excess of gains over losses, from the purchase and sale of securities or other intangible property including shares in Massachusetts corporations and other tax exempt securities.

For a statement of taxable and non-taxable income, exemptions and deductions, see "Income Taxable," "Income Non-Taxable," "Exemptions" and "Deductions."

Tax bill will be mailed September 1st. Tax bills are payable October 15th.

The Tax Commissioner may reassess after September 1st. Additional taxes are payable fourteen days after notice.

Taxes may be paid either to the Tax Commissioner or to the District Income Tax Assessors. Failure to receive a tax bill is no excuse. Six per cent. interest is charged on unpaid taxes.

TEACHERS.

See "Professional Men."

TRUST COMPANIES.

Deposits not over \$1000 in the savings departments of trust companies are exempt and the income from the same need not be returned. Where such deposits exceed \$1000 the income from the whole is taxable.

Other deposits in trust companies are taxable and the interest on the same should be returned as income.

Trust companies must file lists of employees receiving compensation in excess of \$1800. Form 6 should be used.

TRUSTEES.

Trustees who are residents of Massachusetts or derive their appointment from a Massachusetts court are taxable in their fiduciary capacity on income received and paid or accumulated for residents of Massachusetts. They should make a fiduciary return on Form 2.

Trustees should claim the benefit of the \$300 exemption allowed to persons whose total income does not exceed \$600.

Trustees are required to file a list of employees paid in excess of \$1800. Form 6 should be used.

Trustees are required at least once during each five-year period to make a Return of net profits arising from the purchase and sale of intangible property.

Trustees may apportion expenses chargeable to income between exempt income and taxable income.

WAGES.

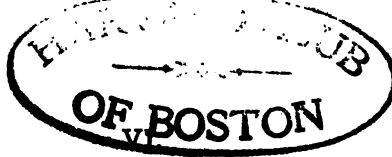
See "Salaries."

WIFE.

See "Husband."

WITHHOLDING AT SOURCE.

There is no withholding at source under the Massachusetts Income Tax Law.



**TEXT OF THE MASSACHUSETTS INCOME
TAX LAW.**

(Acts of 1916 Chapter 269.)

AN ACT TO IMPOSE A TAX UPON THE INCOME RECEIVED FROM CERTAIN FORMS OF INTANGIBLE PROPERTY AND FROM TRADES AND PROFESSIONS.

Be it enacted, etc., as follows:

SEC. 1. There shall be levied in the year nineteen hundred and seventeen, and in each year thereafter, a tax upon incomes as hereinafter set forth.

**TAXATION OF INCOME DERIVED FROM CERTAIN
INTANGIBLES.**

SEC. 2. Income of the following classes received by any inhabitant of this commonwealth during the calendar year prior to the assessment of the tax shall be taxed at the rate of six per cent per annum:

(a) Interest from bonds, notes, money at interest and all debts due the person to be taxed, except from:

First: Deposits in any savings bank chartered by this commonwealth or in the Massachusetts Hospital Life Insurance Company, or such of the deposits in the savings department of any trust company so chartered as do not exceed in amount the limits imposed upon deposits in savings banks by section forty-six of chapter five hundred and ninety of the acts of the year nineteen hundred and eight, and acts in amendment thereof and in addition thereto.

Second: Bonds of the United States and such

bonds, notes and certificates of indebtedness of the commonwealth and of political subdivisions thereof as are exempt from taxation under the provisions of clause fifteen of section five of Part I of chapter four hundred and ninety of the acts of the year nineteen hundred and nine, and acts in amendment thereof and in addition thereto.

Third: Loans secured exclusively by mortgages of real estate, taxable as real estate, situated within the commonwealth, to an amount not exceeding the assessed value of the mortgaged real estate.

(b) Dividends on shares in all corporations and joint-stock companies organized under the laws of any state or nation other than this commonwealth, except national banks and except such foreign corporations as are subject to a tax upon their franchises payable to this commonwealth under the provisions of sections forty-three and fifty-two of Part III of chapter four hundred and ninety of the acts of the year nineteen hundred and nine, and acts in amendment thereof and in addition thereto.

(c) Dividends on shares in partnerships, associations or trusts, the beneficial interest in which is represented by transferable shares, except dividends on shares of the following:

First: Partnerships, associations or trusts, which file with the tax commissioner the agreement herein-after provided for, and the property of which consists exclusively of one or more of the following specified kinds of property, to wit: real estate wherever situated and supplies therefor and receipts therefrom; stocks of corporations taxable under the provisions of sections forty-three and fifty-two of Part III of chapter four hundred and ninety of the acts of the year nineteen hundred and nine and acts in amendment thereof and in addition thereto; bonds, notes, loans secured by mortgage of real estate, and certificates of indebtedness, the income of which is exempt from taxation under the provisions of this section; prop-

erty the income of which, if any, would be taxable under this section if owned by an inhabitant of the commonwealth; shares in partnerships, associations or trusts, dividends on which are exempt from taxation under this section.

Second: Partnerships, associations or trusts, the beneficial interest in which is represented by transferable shares, which file such agreement and furnish satisfactory proof to the tax commissioner that two thirds, at least, of their taxable property is taxed within the commonwealth and that the remainder, if taxable, is taxed where it is situated.

Partnerships, associations or trusts, the dividends on shares of which are exempt from taxation under this section, shall pay to the tax commissioner annually a tax of six per cent of the income derived from any property owned by such partnerships, associations or trusts, so far as such income would be taxable under this section if received by an inhabitant of the commonwealth.

Dividends on the shares of any partnership, association or trust, of the classes designated in paragraphs first and second of subsection (c) of this section shall be subject to taxation under this section unless the trustees or managers of such partnership, association or trust shall file with the tax commissioner, in such form as he shall determine, its agreement to pay to the commonwealth annually the tax imposed by the preceding paragraph and any tax imposed by section five of this act. In case of any breach of the terms of any such agreement, the same may be enforced by information in equity to be brought by the attorney-general at the relation of the tax commissioner in the supreme judicial court for the county of Suffolk. This remedy shall be in addition to all other means of collection provided by this act, and to the penalties hereinafter imposed.

For the purposes of this act any securities of the classes designated in this section, held in pledge, or

on margin or otherwise, by an agent or broker as security for a debt of his principal, whether such securities stand in the name of the principal or of any other person, shall be deemed to be the property of the principal, and the income arising therefrom shall be included in the total income of the principal under this section.

No distribution of capital, whether in liquidation or otherwise, shall be taxable as income under this section; but accumulated profits shall not be regarded as capital under this provision.

DEDUCTIONS ALLOWED.

SEC. 3. From the income taxable under section two of this act the taxpayer may, under the conditions prescribed in this section and in section seven, receive a deduction on account of interest paid by him during the year on debts of the following classes:

(a) Debts, except those secured by mortgage or pledge of real estate or tangible personal property, owed by persons engaged in the business of buying, selling, or otherwise dealing in intangible personal property, provided that such business, if it includes other classes of dealings, does not include buying, selling, improving or otherwise dealing in or with real estate or buying, selling, manufacturing or otherwise dealing in or with tangible personal property.

(b) Debts owed by other persons, except debts secured by such mortgage or pledge and debts on account of which the taxpayer is entitled to claim a deduction under sections five and six.

In determining as hereinafter provided the deduction authorized in the preceding paragraph, no deduction shall be allowed in respect of interest upon any debt belonging to either class (a) or class (b) above enumerated which arises from loans or open accounts directly or indirectly secured by intangible personal property, except to an amount not exceeding eighty per cent of the income returned by the tax-

payer for taxation under section two on account of intangible personal property which secured such loans or open accounts.

The said deduction shall be determined in the following manner:

A taxpayer who claims the benefit of the said deduction shall file with the tax commissioner or the income tax assessor of his district a return, in such form as the tax commissioner shall from time to time prescribe, of his entire income from all sources, together with such other information as the tax commissioner may deem necessary for the determination of the amount of said deduction. The tax commissioner may, in lieu of such return, accept a sworn duplicate of the annual return of income made under the provisions of the act of congress of the United States, approved October third, nineteen hundred and thirteen, and acts in amendment thereof and in addition thereto; he may also, in any case where he shall deem it necessary, require the taxpayer to file such a sworn duplicate.

From the said return and information the tax commissioner or the income tax assessor shall determine the amount of interest paid during the year by the taxpayer on debts of classes (a) or (b) above enumerated, for which deduction is authorized by this section, which interest for the purpose of this section shall be called the net interest. He shall also determine the total net income of the taxpayer, exclusive of income taxable under section five, as such total net income would be if no deduction were made for interest paid during the year. The taxpayer may deduct from his income taxable under section two an amount of interest paid by him during the year which shall bear the same proportion to the net interest paid as his income taxable under section two bears to his total net income as above determined.

A partnership, association or trust, the beneficial interest in which is represented by transferable shares,

paying to the commonwealth a tax upon income subject to taxation under section two of this act, as provided in said section, may receive the deduction authorized by this section on the same terms as an individual inhabitant.

Any person filing a fraudulent return or giving fraudulent information to the tax commissioner or the income tax assessor under this section, shall be subject to the penalties set forth in section thirteen of this act in the case of fraudulent returns.

EXEMPTION.

SEC. 4. A person whose total income from all sources does not exceed six hundred dollars during the year preceding that in which the tax is assessed shall have an exemption of three hundred dollars of that part of his income which is liable to taxation under section two of this act.

INCOME FROM ANNUITIES, PROFESSIONS, EMPLOYMENTS, TRADE AND BUSINESS.

SEC. 5. Income of the following classes received by any inhabitant of this commonwealth, during the calendar year prior to the assessment of the tax, shall be taxed as follows:

(a) Income from an annuity shall be taxed at the rate of one and one half per cent per annum. The income of property held in trust shall not be exempted from taxation under section two nor shall payments to beneficiaries be taxed under this section, because of the fact that the whole or any part of the payments to the beneficiaries is in the form of an annuity. A person whose total income from all sources does not exceed six hundred dollars during the year preceding that in which the tax is assessed shall have an exemption of three hundred dollars of that part of his income which is liable to taxation under this paragraph: *provided, however*, that no person shall have

exemptions under this paragraph and under section four exceeding in all three hundred dollars of income.

(b) The excess over two thousand dollars of the income, as defined in section six, derived from professions, employments, trade or business shall be taxed at the rate of one and one half per cent per annum. In determining such income the rental value of living quarters furnished any individual as part of his compensation shall be included. The wages and salaries of employees and officers of the United States government shall not be taxed; but if such employees and officers receive other income taxable under this section, that part of such other income shall be taxed which, when such other income is added to the amount of the wages or salary received as an employee or officer of the United States government, shall be in excess of two thousand dollars.

(c) The excess of the gains over the losses received by the taxpayer from purchases or sales of intangible personal property, whether or not the said taxpayer is engaged in the business of dealing in such property, shall be taxed at the rate of three per cent per annum: *provided*, that in the case of intangible personal property held by trustees or other fiduciaries, the said excess shall be determined and the tax imposed by this section shall be assessed by the tax commissioner or income tax assessor and the tax shall be paid, at the time when such trust is terminated, but such trustee or other fiduciary may at his option include the said excess in any return of income made prior to the termination of the trust, and the tax shall be assessed and paid as of the year in which the return is made. In the case of trusts that continue for more than five years, the said excess, if not previously returned, shall be included in a return of taxable income at least in every fifth year, and the tax shall be assessed and paid as of the year in which the return is made. Any such trustee or other fiduciary may charge any taxes paid under this paragraph against

principal in any accounting which he makes as such trustee.

Income of the classes enumerated in paragraphs (a), (b) and (c) of this section received by any partnership, association or trust, the beneficial interests in which are represented by transferable shares, shall be taxed under this section to the same extent as if the partnership, association or trust were an individual inhabitant of this commonwealth, unless the dividends on the transferable shares issued by such partnership, association or trust are taxable under the provisions of section two.

Interest and dividends taxable under section two of this act shall not be taxed under this section; and income derived from property not subject to taxation under chapter four hundred and ninety of the acts of the year nineteen hundred and nine and acts in amendment thereof and in addition thereto, and also income derived from forest lands classified under chapter five hundred and ninety-eight of the acts of the year nineteen hundred and fourteen, shall not be taxed under this act.

DETERMINATION OF TAXABLE INCOME FROM PROFESSION, EMPLOYMENT, TRADE OR BUSINESS.

SEC. 6. Income taxable under paragraph (b) of section five of this act shall be the gross income from the profession, employment, trade or business, including gains from the sale of capital assets, other than intangible personal property, employed therein, less the following deductions;

(a) Expenses paid within the year in the profession, employment, trade or business, including the cost of ordinary repairs but not including personal or family expenses: *provided*, that premiums paid for use and occupancy insurance, or rent insurance, shall not be deducted as part of such expenses.

(b) A reasonable allowance for the depreciation and obsolescence of property within the year, and for

the depletion within the year of wasting assets owned by the person taxed and used in the profession, employment, trade or business: *provided*, that with the approval of the tax commissioner a taxpayer may, in lieu of the aforesaid allowance for depreciation and obsolescence, be allowed to deduct actual expenses of replacement of capital and extraordinary repairs, and with such approval may in any year defer such deductions in whole or in part to one or more subsequent years.

(c) All taxes paid within the year to the United States or any other nation, or to any state, county, city, town or district, in respect of the profession, employment, trade or business, or the property held or used in connection therewith, but not including assessments for betterments.

(d) Interest paid within the year on indebtedness of the person taxed incurred in connection with his profession, employment, trade or business; but no interest allowed as a deduction under section three of this act shall also be allowed under this section.

(e) Losses from the sale within the year of capital assets other than intangible personal property and losses sustained within the year by fire, theft or other casualty, or amounts paid within the year on account of claims in tort or contract incurred in connection with the profession, employment, trade or business, when not compensated for by insurance or otherwise.

(f) The amount of any debts receivable arising from the conduct of a profession, employment, trade or business subsequent to December thirty-first, nineteen hundred and fifteen, determined by the person taxed to be worthless and actually charged off during the year; but no debts receivable as income shall be so charged off and deducted, unless they have previously been included as income in a return made under this act.

(g) An amount equal to five per cent of the as-

sessed value of the stock in trade and other tangible property, real and personal, owned by the person taxed and used or employed in the profession, employment, trade or business within or without the commonwealth, on the day as of which such property is assessed in the year for which the income is computed. In case any such stock in trade or other tangible property located without the commonwealth is taxed in respect of its income, and not in respect of its capital value, by the taxing district in which it is located in such year, the tax commissioner may determine its value in any other manner, and may allow a deduction of an amount equal to five per cent of the value so determined.

(h) The sum of five hundred dollars for a husband or wife with whom the taxpayer lives, and the sum of two hundred and fifty dollars for each child under the age of eighteen years, or parent entirely dependent for support upon the person making the return. The aforesaid deduction shall not be made by both husband and wife, but may be made by either as they shall mutually agree, or shall be prorated between them in proportion to the net income of each in excess of two thousand dollars. In no case shall the total deduction on account of husband and wife, and children and parents, exceed one thousand dollars.

(i) Income of the classes specified in the last paragraph of section five.

METHODS OF DETERMINING TAXABLE INCOME.

SEC. 7. Persons who customarily estimate their income and expenditure on a basis other than that of actual cash receipts and disbursements may, with the approval of the tax commissioner, compute upon a similar basis their income taxable under this act. In determining the gains or losses realized from the sale of capital assets, the value on January first, nineteen hundred and sixteen, of such property owned on that

date shall be the basis of determination, and in case property is acquired after January first, nineteen hundred and sixteen, the value on the date that it is acquired shall be the basis of determination.

ESTATES OF DECEASED PERSONS.

SEC. 8. The income received by persons since deceased shall be taxed to their estates. The income received by estates of deceased persons who last dwelt in this commonwealth shall be subject to the taxes assessed by this act, to the extent that the persons to whom such income is payable or for whose benefit it is accumulated are inhabitants of this commonwealth, which shall be assessed to the executor or administrator, and before the appointment of an executor or an administrator such taxes shall be assessed in general terms to the estate of the deceased, and the executor or administrator subsequently appointed shall be liable for the tax so assessed as though assessed to him: *provided*, that no person shall be taxed under the provisions of this act for income received from any executor or administrator which income has itself been taxed under the provisions of this section; and *provided*, that an executor or administrator who has given due notice of his appointment, and who has filed an inventory within nine months thereafter, shall not be obliged to pay any tax hereunder except upon income received by him or income of his decedent with respect to which he is required to make a return hereunder, unless the same shall be assessed within one year after his giving bond for the performance of his trust. If the inventory shall not have been filed within the said nine months, the executor or administrator shall be obliged to pay any taxes that may be assessed hereunder within three months after the filing of the inventory.

The provisions of this act with reference to the taxation of income received by trustees shall, so far

as apt, and except as otherwise provided herein, apply to the income received by executors and administrators.

PROPERTY HELD IN TRUST.

SEC. 9. The income received by estates held in trust by trustees, any one of whom is an inhabitant of this commonwealth or has derived his appointment from a court of this commonwealth, shall be subject to the taxes assessed by this act to the extent that the persons to whom the income from the trust is payable, or for whose benefit it is accumulated, are inhabitants of this commonwealth. The tax shall be assessed to such of the trustees as are inhabitants of the commonwealth.

Such part of the income of intangible personal property held in trust as is payable to or accumulated for persons who are not inhabitants of the commonwealth, shall be exempt from the taxes imposed by this act.

If an inhabitant of this commonwealth receives income from one or more executors, administrators or trustees, none of whom is an inhabitant of this commonwealth or has derived his appointment from a court of this commonwealth, such income shall be subject to the taxes assessed by this act, according to the nature of the income received by the executors, administrators or trustees.

An executor, administrator, or trustee may, at the request of any beneficiary, claim the benefit of the exemptions provided by sections four and five of this act for each person to whom the income from the trust is payable, or for whose benefit it is accumulated, and an inhabitant of this commonwealth receiving income from one or more executors, administrators or trustees, none of whom is an inhabitant of this commonwealth or has derived his appointment from a court of this commonwealth, may also claim the benefit of such exemptions: *provided, however*, that no such exemptions shall be allowed unless the tax com-

missioner is satisfied by an affidavit from the beneficiary who claims exemptions, or for whose benefit the same are claimed, or otherwise, that such beneficiary is not allowed in all trusts or estates under which he may be a beneficiary, and on account of all income on which he is liable to taxation under this act, more than the total amount of exemptions to which he is entitled under said sections four and five respectively.

Corporations authorized under the laws of this commonwealth to act as trustee or in any other fiduciary capacity shall, with respect to the income received by them in that capacity, be subject to the provisions of this act in the same manner and under the same conditions as individual inhabitants of this commonwealth acting in similar capacities, except that no such corporation shall be taxed on account of any property the income of which would be taxable under section two hereof if received by an individual inhabitant, or on account of the income derived from such property, if such property is held by such corporation as mortgagee or pledgee to secure the payment of bonds, notes or other evidences of indebtedness the interest on which is taxable under section two of this act to such individual inhabitants of the commonwealth as receive it, or the principal of which is exempt from taxation under laws other than this act.

The provisions of this act with reference to the taxation of income received by trustees shall, so far as apt, apply to the income received by guardians, conservators, trustees in bankruptcy, receivers and assignees for the benefit of creditors. Income accumulated in trust for the benefit of unborn or unascertained persons or persons with contingent interests shall be taxed as if accumulated for the benefit of inhabitants of this commonwealth.

For the purpose of facilitating the settlement and distribution of estates held by executors, administra-

tors, trustees, guardians, conservators, trustees in bankruptcy, receivers and assignees for the benefit of creditors, the tax commissioner, with the approval of the attorney-general, may on behalf of the commonwealth agree upon the amount of taxes at any time due or to become due from such estates under the provisions of this act, and payment in accordance with such agreement shall be full satisfaction of the taxes to which the agreement relates.

PARTNERSHIPS.

SEC. 10. Profits or income, of the classes hereinbefore made taxable, of partnerships of which any member is an inhabitant of this commonwealth and which have a usual place of business in this commonwealth, shall be subject to the taxes assessed by this act. If any of the members of the partnership are not inhabitants of this commonwealth, only so much of the income thereof as is proportionate to the aggregate interest of the partners who are inhabitants of this commonwealth in the profits of the partnership shall be taxed. The tax shall be assessed on such a partnership by the name under which it does business, and the partners shall not be taxed with respect to the income derived by them from such a partnership. A partnership may, except as hereinafter provided, in computing the amount of income with respect to which it is taxable, deduct at the request of any partner the whole or any part of the amount of any exemption to which such partner may be entitled under the provisions of sections four and five of this act: *provided, however*, that no such exemption shall be allowed unless the tax commissioner is satisfied by an affidavit from the partner for whose benefit an exemption is claimed, or otherwise, that such partner is not allowed, in all partnerships in which he may be a partner, and on account of all income on which he is liable to taxation under this act, more than the total amount of exemptions to which he is entitled under

said sections four and five of this act. Each amount so deducted shall be set forth in the return of such partnership, and the partner requesting the same shall be allowed no further exemption on account of the amount so deducted by the partnership.

An inhabitant of this commonwealth who is a member of a partnership having no usual place of business in this commonwealth, who receives income from such partnership derived from such a source that it would be taxable if received directly by such partner, shall as to such income be subject to the taxes imposed by this act.

The provisions of this act in respect to the filing of returns, and the assessment, abatement and collection of taxes, and to notices concerning the same, shall apply to partnerships subject to taxation hereunder.

This section shall not apply to partnerships, associations or trusts, the beneficial interest in which is represented by transferable shares, and nothing in this section shall affect other provisions of this act so far as the same relate to such partnerships, associations or trusts, the beneficial interest in which is represented by transferable shares.

EXEMPTION OF PROPERTY THE INCOME OF WHICH
IS TAXED.

SEC. 11. After the year nineteen hundred and sixteen, income which is taxable under the provisions of section five of this act, and, except as provided in section twenty-one, property, whether held by an executor, administrator, trustee or otherwise, the income of which, if any, is taxed or would be taxable under the provisions of section two of this act if received by an inhabitant of this commonwealth, shall be exempt from taxation under the provisions of chapter four hundred and ninety of the acts of the year nineteen hundred and nine and acts in amendment thereof and in addition thereto: *provided, however*, that in determining the amount of any tax

upon a corporate franchise under the provisions of Part III of said chapter four hundred and ninety, the value of securities the income of which, if any, is taxed or would be taxable under the provisions of this act if owned by a natural person, shall not be included in the deduction, authorized by section forty-one of said part of said chapter, of securities which, if owned by a natural person resident in this commonwealth, would not be liable to taxation, but, for the purposes of section forty-three of said part of said chapter, shall be included among securities which, if owned by a natural person resident in this commonwealth, would be liable to taxation. This act shall not be construed to impose a tax upon any corporation or person in respect to income derived from property exempted from taxation by provisions of law existing prior to the passage of this act, nor shall anything in this act exempt from taxation, under the provisions of said chapter four hundred and ninety, real estate and tangible personal property.

Except as provided in section nine, the income received by corporations shall not be taxable under the provisions of this act. Every corporation liable to taxation under said section nine shall make the returns required by this act, and shall be subject to the penalties therein provided.

RETURNS.

SEC. 12. Every individual inhabitant of the commonwealth, including every partnership, association or trust, whose annual income from all sources exceeds two thousand dollars shall annually make a return of his entire income, except income derived (a) from real estate, (b) from dividends exempt from taxation under section two of this act, (c) from interest upon bonds or other obligations of the United States, (d) from interest upon such bonds, notes and certificates of indebtedness of the commonwealth and political subdivisions thereof as are exempt from

taxation under the provisions of clause fifteen of section five of Part I of chapter four hundred and ninety of the acts of the year nineteen hundred and nine, and acts in amendment thereof and in addition thereto, (e) from loans secured exclusively by mortgages of real estate, taxable as real estate, situated within the commonwealth to an amount not exceeding the assessed value of the mortgaged real estate, and (f) from wages or salaries received from the United States. Every other individual inhabitant, including every partnership, association or trust, who receives income taxable under section two or subdivision (a) or (c) of section five of this act shall make an annual return of such taxable income.

Every executor, administrator, trustee, guardian, conservator, trustee in bankruptcy, assignee for the benefit of creditors and receiver, other than a receiver of a corporation organized under the laws of the commonwealth, and every other person receiving income taxable under this act shall make an annual return of his taxable income as herein provided.

The aforesaid return shall be under oath, and shall be filed with the income tax assessor for the district in which the taxpayer resides or has his principal place of business or, at the option of the taxpayer, may be filed with the tax commissioner, and shall be made in such form as the tax commissioner shall from time to time prescribe and shall contain such further information as the tax commissioner may deem pertinent. The return shall be made on or before the first day of March in each year, and shall relate to the income received during the calendar year ending on the preceding thirty-first day of December.

The return required by this section shall be filed by every person who is at any time between the first day of January and the thirtieth day of June in any year an inhabitant of the commonwealth, if such person has in the preceding year received income taxable hereunder: *provided*, that the return relating to in-

come taxable under the provisions of this act, and received by any person who shall have deceased without having made a return relating to such income, shall be made by his executor or administrator; and *provided*, that in the case of any such person who has become an inhabitant of the commonwealth after the first day of February in any year, such return shall be due and shall be filed ninety days after he becomes such an inhabitant. Every person who is an inhabitant of the commonwealth at any time between the first day of January and the thirtieth day of June, both inclusive, in any year, shall be subject to the taxes imposed by this act.

The tax commissioner shall cause to be prepared blanks for the said returns, and shall cause them to be distributed throughout the commonwealth; but no person shall be excused from making the return by failure of the tax commissioner to send or give one of the blanks to him.

The tax commissioner shall give seasonable notice of the requirement of this section, in the manner prescribed by section forty-one of Part I of chapter four hundred and ninety of the acts of the year nineteen hundred and nine, not later than the fifteenth day of January in each year, in every city and town in the commonwealth.

If the tax commissioner shall, from information derived from the return or otherwise, be of opinion that any person whose income is taxable under the provisions of this act may have failed to file a return, or to include in a return filed, either intentionally or through error, all the sources of his taxable income, he may require from such person a return or a supplementary return under oath, in such form in each individual instance as the commissioner shall prescribe, of all the sources from which the taxpayer received any income, whether or not taxable under the provisions of this act, in the year for which the return was made. If from a supplementary return or

otherwise the commissioner finds that any sources of taxable income have been omitted from the original return, he may require the amount of income from each source of taxable income so omitted to be disclosed to him under oath of the person liable for the tax, and added to the original return. Such supplementary return and the correction of the original return shall not relieve the person making the same from any of the penalties to which he may be liable under any provision of this act. The tax commissioner may proceed under the provisions of section fourteen of this act, whether or not he requires a return or a supplementary return under this section.

PENALTIES.

SEC. 13. If any person required to file a return under the provisions of this act fails to file the return within the time prescribed by such provisions, there shall be added to, and become a part of the tax, as an additional tax, the sum of five dollars for every day during which such person is in default: *provided, however,* that the tax commissioner may, in his discretion, abate any such additional tax in whole or in part.

If any person fails to file a return required under the provisions of this act on or before the first day of May of any year, any justice of the supreme judicial court or of the superior court, upon petition of the tax commissioner or of the income tax assessor for the district in which such person is required to file the return, or of any ten taxable inhabitants of the commonwealth, shall issue a writ of mandamus requiring such person to file the return. The order of notice upon the petition shall be returnable not later than ten days after the filing of the petition. The petition shall be heard and determined on the return day or on such day thereafter as the court shall fix, having regard to the speediest possible determin-

ation of the cause consistent with the rights of the parties. The judgment shall include costs in favor of the prevailing party. All writs and processes may be issued from the clerk's office in any county, and, except as aforesaid, shall be returnable as the court shall order.

If any person files a fraudulent return, or if any person who has failed to file a return, or has filed an incorrect or insufficient return, and has been notified by the tax commissioner of his delinquency, without reasonable excuse fails to file a return within twenty days after receiving such notice, such person shall be punished by a fine of not less than one hundred dollars nor more than ten thousand dollars, or by imprisonment for not more than one year, or by both such fine and imprisonment, and shall forfeit his right to hold public office anywhere within the commonwealth for such period, not exceeding five years, as the court may determine.

In the case of a partnership of which one or more members are inhabitants of this commonwealth and having a usual place of business in this commonwealth, the penalties imposed by this act may be inflicted upon any member of the partnership who is an inhabitant of this commonwealth and who has any active part in the management of the affairs of the partnership, and if there is no such member, upon the person or persons in charge of its affairs within this commonwealth. In the case of a partnership, association or trust, the beneficial interests in which are represented by transferable shares, the penalties imposed by this act for failure to file a return may be inflicted upon the trustees, managers, or officers whose duty it was to make the return.

The penalties provided by this section shall apply to individuals and corporations acting in any fiduciary capacity. In the case of a corporation, the penalty may be imposed on the corporation, on the officers whose duty it was to make the return, or on both.

ASSESSMENT AND ADMINISTRATION.

SEC. 14. The tax commissioner shall determine from the returns required by this act, or in any other manner, the income of every person taxable under this act, and shall assess thereon the tax hereby provided; but he shall not determine the income of a person who has filed a return in accordance with section twelve, within the time prescribed by law, to be in excess of that disclosed by such return, without notifying such person and giving him an opportunity to explain the apparent incorrectness of his return.

For the purpose of verifying any return made pursuant to this act the tax commissioner may, within two years after the date when such return was due, if he has reason to believe the return to be fraudulent or incorrect, direct by special authorization a deputy or other agent to verify the return; and for the purpose of such verification the books and papers of the person shall be open to the examining officer, or shall be produced for the purpose upon a summons, which the tax commissioner, or the examining officer, is hereby authorized to issue. The person making the return may be examined by such officer under oath.

If no return, or a fraudulent, incorrect or insufficient return, has been filed by a person required to file a return under the provisions of this act, and the person so in default refuses or neglects, after notice, to file a proper return, the tax commissioner shall determine the income of such person, taxable under this act, according to his best information and belief, and shall assess the same at double the amount so determined. In the case of sickness, absence or other disability of a person liable to the tax, the tax commissioner may allow such further time for filing the return as he may deem necessary.

If the tax commissioner discovers from the verification of a return filed under this act, or otherwise, that the income of any person subject to taxation under

this act, or any portion thereof, has not been assessed, he may, at any time within two years after the first day of September of the year in which such assessment should have been made, assess the same, first giving notice to the person so to be assessed of his intention, and such person shall thereupon have an opportunity within ten days after such notification to confer with the tax commissioner in person or by counsel or other representative as to the proposed assessment. After the expiration of ten days from such notification the tax commissioner shall assess the income of such person subject to taxation, or any portion thereof, which he believes has not theretofore been assessed, and he shall thereupon give notice to the person so assessed under the provisions of section fifteen of this act, and the tax shall be payable fourteen days after the date of such notice. The provisions of this act in respect to the abatement and collection of taxes shall apply to a tax so assessed.

The tax commissioner may from time to time make such rules and regulations, not inconsistent with the provisions of this act, as he may deem necessary for the purpose of carrying out its provisions.

SEC. 15. The tax commissioner shall, on or before the first day of September in each year, give notice to every person taxable under the provisions of this act of the amount of the tax payable by him, and of the date upon which the tax is due and payable, which date shall be the fifteenth day of October. The notice shall be a written or printed notice, and shall be mailed, postage prepaid, addressed to the person assessed at his place of residence or business, or at the address given in his return, or otherwise delivered at such place of residence or business or at such address. All taxes assessed hereunder may be paid at the office of the tax commissioner in Boston or at the office of the income tax assessor for the district in which the taxpayer resides or has his principal place of business, at the option of the taxpayer, and

the notice shall state the places at which the tax may be paid.

Failure to receive the notice provided for by this section shall not affect the validity of the tax.

SEC. 16. Returns shall be open to the inspection of the tax commissioner and of his deputies, assistants and clerks, when acting under his authority, and of the income tax assessors and of their deputies, assistants and clerks, when acting under their authority. The disclosure by the tax commissioner, or by any deputy, assistant, clerk or assessor, or other employee of the commonwealth, or of any city or town therein, to any person of any information whatever contained in or set forth by any such return, other than the name and address of the person filing it, except in proceedings to collect the tax or by proper judicial order, shall be punishable by a fine not exceeding one thousand dollars, or by imprisonment for a period not exceeding six months, or by both such fine and imprisonment, and by disqualification from holding office for such period, not exceeding three years, as the court may determine. Said returns shall be preserved for two years, and thereafter until the tax commissioner orders them to be destroyed.

Lists or indexes of persons in the district who have filed returns shall be kept in the office of each income tax assessor, and shall be open to public inspection. The name of each person filing a return shall be placed on such list or index immediately on the filing of the return.

SEC. 17. For the purpose of carrying out the provisions of this act, the tax commissioner shall divide the commonwealth into income tax districts, and he may from time to time change the limits of the districts. He shall, with the advice and consent of the governor and council, appoint, and may with their consent remove, an income tax assessor for each district, to assist him in such manner and under such

rules and regulations as he may from time to time prescribe in the performance of his duties hereunder.

An income tax assessor need not be a resident of the district in which he is to serve: *provided*, that, so far as may be practicable, preference shall be given to residents of the respective districts. The commissioner may transfer any income tax assessor from one district to another, and may assign any such assessor to temporary or extraordinary service in any district.

The tax commissioner may also appoint such deputy income tax assessors, who may be members of boards of assessors of cities or towns, and such clerical and other assistants in the several districts, as may, in the opinion of the governor and council, be necessary for the proper performance of his duties.

The salaries of the income tax assessors and their deputies shall be fixed by the tax commissioner with the approval of the governor and council, and the income tax assessors, their deputies, assistants and clerks, shall be allowed such reasonable and necessary travelling and other expenses incurred in the performance of their duties as may be approved by the tax commissioner and by the governor and council.

All taxes received by the income tax assessors shall be accounted for and turned over to the tax commissioner as often as once in each week, and the commissioner shall transmit to the treasurer and receiver general as often as once in each month all taxes received by him under the provisions of this act.

The tax commissioner shall require the income tax assessors to give bonds in such form, with such sureties and in such amounts as may be approved by the governor and council, and all premiums upon such bonds shall be paid by the tax commissioner out of moneys appropriated for the purposes of this act.

The tax commissioner may also, with the advice and consent of the governor and council, appoint, and with their consent remove, a deputy to be known as the

income tax deputy, who shall receive such salary as the governor and council may approve, and who, under the direction of the tax commissioner, shall have supervision and control of the assessment and collection of the income taxes provided for by this act; and the tax commissioner shall appoint such additional clerical and other assistants to the income tax deputy and income tax assessors as the governor and council may approve.

The aforesaid income tax deputy, income tax assessors and deputy assessors shall have such duties and powers consistent with the provisions of this act as the tax commissioner shall from time to time prescribe. Their appointment shall be governed by the provisions of law relative to the appointment of the present deputies and assistants of the tax commissioner, and supervisors of assessors.

SEC. 18. If a tax assessed under the provisions of this act is not paid at the time when it is due, interest at the rate of six per cent per annum from that time shall be added to and become part of the tax. The tax commissioner, and the income tax assessors in their respective districts, shall have all the remedies for the collection of taxes assessed under the provisions of this act that are provided by chapter four hundred and ninety of the acts of the year nineteen hundred and nine, and acts in amendment thereof and in addition thereto, for the collection of taxes on personal estate by collectors of taxes of cities and towns, and shall be allowed charges and fees as therein provided. Any action of contract brought to recover any such tax shall be brought in the name of the commonwealth.

ABATEMENTS.

SEC. 19. Any person aggrieved by the assessment of a tax under the provisions of this act may apply to the tax commissioner for an abatement thereof at

any time within three months after the date of the notice of the assessment; and if, after a hearing, the tax commissioner is satisfied that the tax is excessive in amount or that the person assessed is not subject to the tax, he shall abate the tax in whole or in part accordingly; and if the tax has been paid, the treasurer and receiver general shall repay to the person assessed the amount of such abatement, with interest thereon at the rate of six per cent per annum from the time when it was paid: *provided, however*, that no tax assessed upon any person liable to taxation under this act shall be abated in any event unless the person assessed shall have filed, at or before the time of bringing his petition for abatement, a return as required by section twelve of this act; and if he failed without good cause to file his return within the time prescribed by law, or filed a fraudulent return, or, having filed an incorrect or insufficient return, has failed, after notice, to file a proper return, the tax commissioner shall not abate the tax below double the amount for which the person assessed was properly taxable under the provisions of this act. The tax commissioner shall notify the petitioner by registered letter of his decision upon the petition.

Any person aggrieved by the refusal of the tax commissioner to abate, in whole or in part, under the provisions of this section, a tax assessed under the provisions of this act, may, within thirty days after receiving notice of the decision of the tax commissioner, appeal therefrom by filing a complaint with the clerk of the board of appeal provided for by section sixty-eight of Part III of chapter four hundred and ninety of the acts of the year nineteen hundred and nine. If, upon a hearing, the board of appeal finds that the person making the appeal is entitled to any abatement from the tax assessed upon him, it shall make such abatement as it sees fit.

The decision of the board of appeal shall be final and conclusive, and shall be communicated in writing

to the petitioner and the tax commissioner within five days after the decision of the board.

If the tax appealed from has been paid, the treasurer and receiver general shall repay to the petitioner the amount of any abatement and interest from the time of payment, upon presentation to him by the petitioner of the notice of the decision of the board.

SEC. 20. Any person aggrieved by the refusal of the tax commissioner to abate in whole or in part, under the provisions of the preceding section, a tax assessed under the provisions of this act may, instead of pursuing the remedy provided in the preceding section, appeal from such refusal by filing a complaint against the tax commissioner in the superior court for the county in which such person resides or has his principal place of business, within thirty days after the notice by the tax commissioner of his decision in accordance with the preceding section. An order of notice shall be issued by said court and served upon the tax commissioner within such time as the court shall direct, and the subsequent proceedings shall be conducted in accordance with the provisions of sections seventy-seven to eighty, inclusive, of Part I of chapter four hundred and ninety of the acts of the year nineteen hundred and nine, and acts in amendment thereof and in addition thereto; but if the complainant was subject to taxation under this act and did not file his return within the time prescribed by law he shall not be entitled to have any part of his tax abated by the court, unless the court finds that he had good cause for his delay, or the tax commissioner had previously so found. If an abatement is granted, the amount thereof shall be repaid to the complainant by the treasurer and receiver general, with interest at the rate of six per cent per annum from the time when the tax was paid, and costs.

The remedies provided by sections nineteen and

twenty hereof shall be exclusive, whether or not the tax is wholly illegal.

ADDITIONAL LOCAL TAXES.

SEC. 21. All property owned by a resident of this commonwealth on the first day of April in any year, which during the preceding calendar year had produced for such owner any income taxable under this act, shall, despite anything in this act, be subject to taxation to such owner in accordance with the provisions of chapter four hundred and ninety of the acts of the year nineteen hundred and nine, and acts in amendment thereof and in addition thereto, if such owner does not make to the tax commissioner a full return of his taxable income from such property on or before the first day of September of the year in which a return of income is required by section twelve of this act, and provided the tax so assessed is greater than the amount of the tax properly payable under sections two and fourteen of this act. Property taxable in any year under this section shall be assessed in that year between the second day of September and the tenth day of December, both inclusive. The amount of taxes assessed by the local assessors upon such property in such city or town in any year, less the amount assessed and collected by the tax commissioner as hereinafter provided, shall be entered on the tax list of the collector of such city or town, and he shall collect and pay over the same to the city or town.

Any taxpayer aggrieved by the assessment of a tax under the provisions of this section may appeal to the tax commissioner within thirty days after the receipt of the tax bill therefor, or other actual notice of the assessment. In case of an adverse determination by the tax commissioner, the taxpayer may appeal to the board of appeal as provided in section nineteen, or to the superior court as provided in section twenty; and if the taxpayer shall establish that the income of the property was duly returned or that it was not

taxable or that there was reasonable excuse for not making the return, the tax shall be abated, and if it has previously been paid, the amount abated shall be repaid by the city or town to the taxpayer, with interest from the time of such payment. At any time prior to the collection by the city or town of the tax provided for by this section, the tax commissioner may assess and collect the tax provided for by this act, on the income of the property subject to the limitation of time provided by section fourteen. Upon the collection of the tax, the tax commissioner shall at once notify the tax collector of the city or town in which the taxpayer resides, and the tax collected by him shall be deducted from the tax assessed in that city or town; and if the tax assessed in such city or town has been collected, the amount so deducted shall be repaid by the city or town to the taxpayer. If a tax collected by a city or town under the provisions of this section is afterward abated, the amount of the abatement, together with the amount of any interest paid by the taxpayer on that amount, shall be paid by the city or town to the taxpayer.

Upon discovery of property the income of which for the preceding calendar year, taxable under this act, has not been returned on or before the first day of September of the year in which the return is required, the tax commissioner shall forthwith notify the assessors of the city or town in which the property is taxable, unless there is within his knowledge a reasonable excuse for the failure of the taxpayer to file the return. Upon making any assessment under the provisions of this section, the assessors shall forthwith notify the tax commissioner.

SEC. 22. Any taxpayer who in the year nineteen hundred and seventeen fails to bring in a list of taxable personal estate, as provided in sections forty-one to forty-nine, inclusive, of Part I of chapter four hundred and ninety of the acts of the year nineteen hundred and nine, and acts in amendment thereof and

in addition thereto, shall be assessed in that year for an amount of personal estate not less than that for which he was assessed and taxed in the year nineteen hundred and sixteen. The tax commissioner shall have authority to assess any taxpayer in any city or town for any amount of tax for which said taxpayer may be liable under the provisions of this section; and any assessor who shall violate the provisions of this section shall be liable to the penalties imposed by section thirty-nine of Part I of chapter four hundred and ninety of the acts of the year nineteen hundred and nine, and acts in amendment thereof and in addition thereto.

DISTRIBUTION.

SEC. 23. On or before the fifteenth day of November in the year nineteen hundred and seventeen the treasurer and receiver general shall pay to each city or town an amount equal to the difference between the amount of the tax levied upon personal property in such city or town in the year nineteen hundred and fifteen and the amount, computed by the tax commissioner, that would be produced by a tax upon the personal property actually assessed in such city or town for the year nineteen hundred and seventeen at the same rate of taxation as prevailed therein in the year nineteen hundred and fifteen. If the amount of taxes collected from incomes shall exceed the sum necessary to make such payments, the balance shall be distributed among the several cities and towns in proportion to the amount of the state tax imposed upon each of them in the year nineteen hundred and seventeen: *provided*, that of the aforesaid excess the commonwealth shall retain a sum sufficient to reimburse it for the expenses incurred under this act during the year nineteen hundred and seventeen, and abated taxes repaid hereunder during said year. In years subsequent to nineteen hundred and seventeen,

the taxes collected under this act shall be distributed as the general court may determine.

SEC. 24. On or before the first day of August in each year the tax commissioner shall, upon the basis of the information then in his possession, notify the assessors of each city and town of the amount of income tax such city or town is to receive under this act. The said assessors, in determining the rate of taxation to be levied upon taxable property for the year, shall include in the estimated receipts lawfully applicable to the payment of expenditures the aforesaid amount of income tax.

INFORMATION AT THE SOURCE.

SEC. 25. Every individual, partnership, association, trust or corporation, being an inhabitant of the commonwealth or having a place of business therein, shall file annually with the tax commissioner a return in such form as the tax commissioner shall from time to time prescribe, giving the names and addresses of all regular employees residing in this commonwealth to whom the said individual, partnership, association, trust or corporation has paid wages, salary or other compensation in excess of the sum of eighteen hundred dollars during the previous calendar year.

Every corporation and every partnership, association or trust the beneficial interest in which is represented by transferable shares, doing business in the commonwealth, shall, unless the dividends paid upon its shares are exempt from taxation under section two of this act, on or before the first day of March in the year nineteen hundred and seventeen and in each year thereafter, file with the tax commissioner a list of the names and addresses of its shareholders as of record on the thirty-first day of December of the previous year, or, in its discretion, of such shareholders as are residents of the commonwealth: *provided, however*, that the tax commissioner in his discretion may accept in lieu of the above list from any corporation,

partnership, association or trust required to make a return hereunder a list of its shareholders as of record on any other date satisfactory to him. Every such corporation, partnership, association or trust shall also report to the tax commissioner on or before the first day of March in each year the names and addresses of residents of the commonwealth to whom it has paid interest during the preceding calendar year upon its bonds, notes, or other evidences of indebtedness, and to whom it has paid any annuity or annuities, except, however, interest coupons payable to bearer, and income exempt from taxation under this act. In any individual case, any such corporation, partnership, association or trust shall, upon request of the tax commissioner, state the respective amounts of dividends, interest and annuities so paid by it to any person during any calendar year.

The terms provided by this section shall be made on or before the first day of March in each year; but the tax commissioner may, in his discretion, authorize such returns to be made at any other date and in connection with any other reports or returns that the said individuals, partnerships, associations, trusts and corporations may be required to file with him.

Any individual, partnership, association, trust or corporation that without reasonable excuse fails to comply with the provisions of this section shall be punished by a fine of not less than twenty-five nor more than five hundred dollars for each offence.

SEC. 26. The treasurer of every city, town and county, and the auditor of the commonwealth shall, in each year not later than the tenth day of April, in the form prescribed by the tax commissioner, furnish said commissioner with the names and addresses of all employees of said cities, towns, counties and of the commonwealth respectively who received during the preceding calendar year as salary, wages, or otherwise amounts exceeding eighteen hundred dollars in each case, together with the amount received by each.

GENERAL PROVISIONS.

SEC. 27. If any part, subdivision or section of this act shall be declared unconstitutional, the validity of the remaining parts of this act shall not be affected thereby.

SEC. 28. No caption to any section or set of sections shall in any way control or affect the interpretation of this act or of any part hereof.

SEC. 29. After the passage of this act on the fifteenth day of May in the year nineteen hundred and sixteen, whichever last occurs, no bonds shall be registered under chapter seven hundred and sixty-one of the acts of the year nineteen hundred and fourteen, and acts in amendment thereof and in addition thereto. The tax imposed by this act shall not be assessed upon the income from any bond registered under any of said acts until the term for which such bond was exempted by registration has expired.

SEC. 30. This act shall take effect upon its passage.

Approved May 26, 1916.

VII.

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NOTE : References in left column are to the Federal Income Tax Law.
 References in right column are to the Massachusetts Income Tax Law.
 References in italics are to the text of the Income Tax Statutes.

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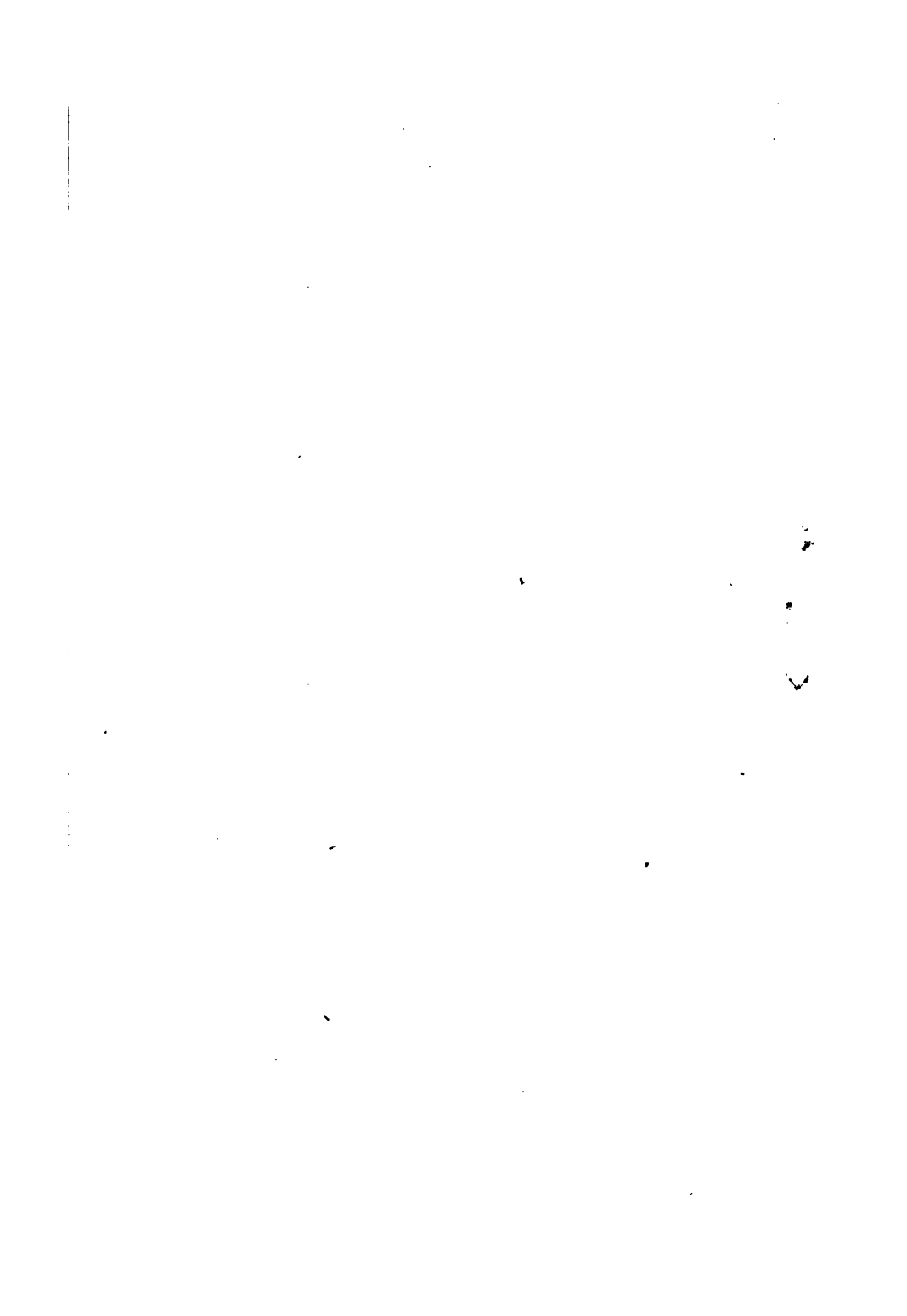
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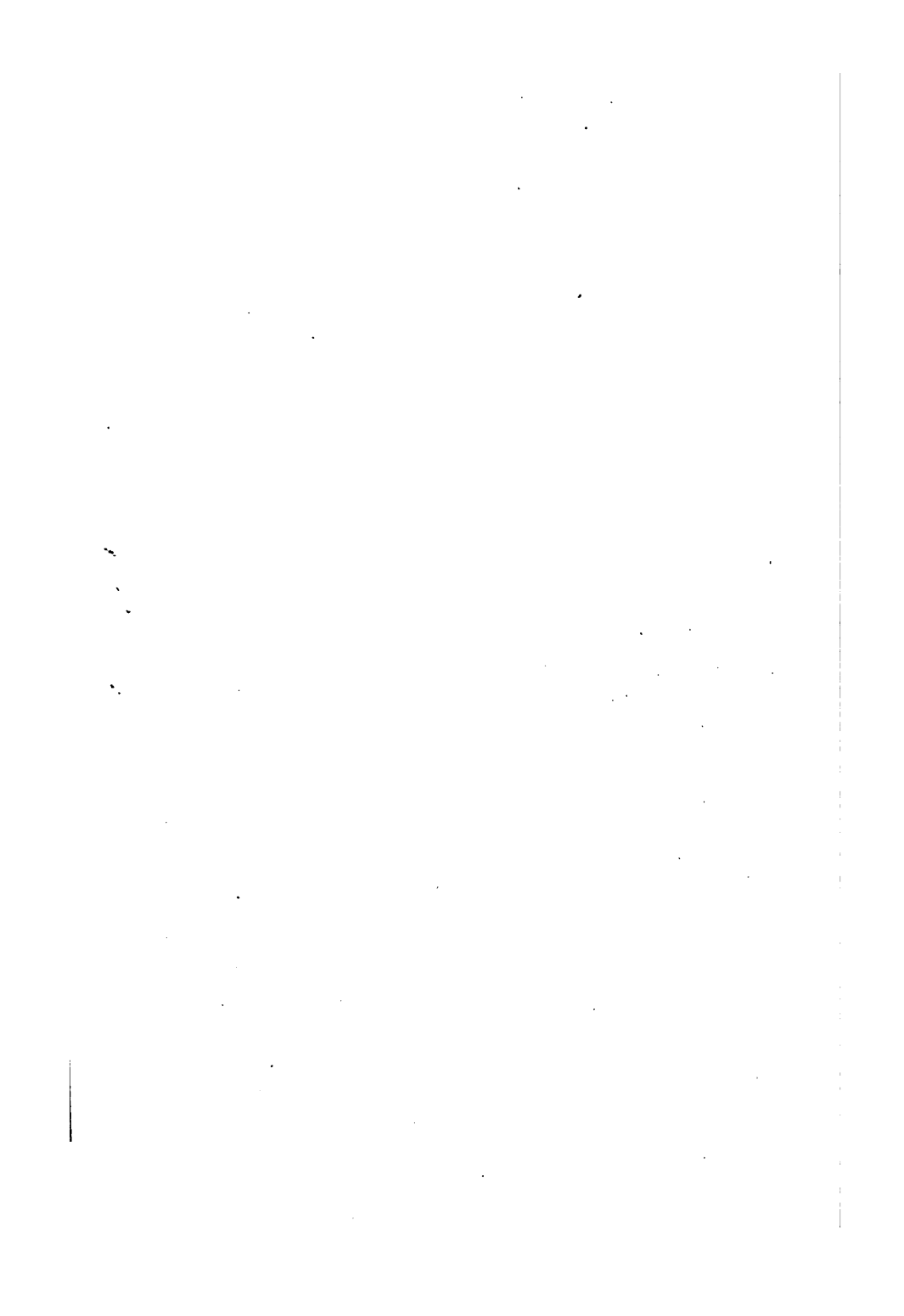
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